

The Economics of Commerce

H. DE B. GIBBINS, M. A.

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THE ECONOMICS OF COMMERCE

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THE ECONOMICS OF COMMERCE

BY

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P R E F A C E

The following chapters first appeared in the form of a series of papers on "The Political Economy of Business" in a magazine circulating chiefly among commercial men. They were intended for young men engaged in, or just about to enter, commercial life; and aimed at presenting, in a simple, popular, and elementary manner, the main economic principles which underlie modern commerce. They are now republished (by request), and it is hoped that they may be of use to others than those for whom they were originally intended. Suggestions for further reading are given at the end of each chapter.

C O N T E N T S

CHAPTER	PAGE
I. COMMERCE AND ITS LAWS	I
II. THE INTERPRETATION OF IMPORT AND EXPORT STATISTICS	10
III. FOREIGN EXCHANGES	17
IV. BIMETALLISM	26
V. FREE TRADE AND PROTECTION	34
VI. THE COMMERCIAL POLICY OF OUR COLONIES	42
VII. MONEY AND CREDIT	50
VIII. CREDIT AND BANKING	58
IX. RINGS, TRUSTS, OR SYNDICATES	66
X. LABOUR AND CAPITAL	74
XI. TRADE UNIONS AND THE HOURS OF LABOUR	82
XII. THE DISTRIBUTION OF NATIONAL WEALTH	88

THE ECONOMICS OF COMMERCE

CHAPTER I

COMMERCE AND ITS LAWS

BEFORE dealing with those branches of economic science which concern more particularly the merchant and man of business as distinguished from the professional man or the agriculturist, we must first devote a few sentences to laying the foundations upon which we shall afterwards proceed. It is necessary to have a clear idea of what we are going to discuss, and of what the science of political economy in general treats. Let us therefore avoid technical terms, and look simply at the ordinary facts of human life.

1. The Material Wants of Man. The first thing we notice is, that man, in virtue of his natural conditions of body and mind, has certain requirements, needs, or *wants*, of a more or less pressing character. He feels, even in a savage state, that he wants certain things—food, clothing, and shelter, for instance—in order to maintain his life and to make it more or less comfortable. The more civilised he grows, the more widely extended does the circle of his wants become, till at length, in a highly cultured and civilised state like England, Germany, or the United States, the multitude and variety of his wants may be said to be almost infinite.

This is the kernel of the whole matter. Man has wants, spiritual, mental, and material, and the satisfaction of these wants is the chief business of his life. Religion deals with his spiritual wants, philosophy with his mental wants, and political economy with his material wants. Political economy, therefore, is "*the science that discusses and deals with the material wants of mankind.*" This is better than saying that it is "the science of wealth," for *wealth* has various meanings according as it is used in various ways, but it would not be very far wrong to say that a sound knowledge of political economy considerably assists a man in obtaining wealth, and in profiting by the various opportunities and chances which he gets in his daily struggles in the business world.

2. How Exchange Arises. But soon we come to another point. Those articles which are used in supplying men's material wants are called *commodities*, and the *exchange* of such commodities forms the basis of the whole world of "commerce" as distinguished from the world of "industry," for the world of industry may be said to be engaged chiefly in obtaining, acquiring, or *producing* these commodities. Of course it is, in many given cases, sometimes hard to distinguish between *exchange* and *production*, for a merchant who brings manufactured goods to a certain market and enables people to buy them readily then and there, may be said to be a producer just as much as a manufacturer who works up raw cotton into cotton cloth, or the agriculturist in India who grows the cotton on his native fields. However, for the purposes of regular treatment, we must distinguish between exchange and production, and in these papers we shall find that we shall chiefly be concerned with the former the *exchange of commodities*.

3. Value. But again, commodities, in order to be exchanged, must, as a rule, have a certain value. This word "value" is one of the very hardest in all the technology of political economy, and many people give it many very different meanings. A diamond is valuable and so is a bottle of medicine; and yet they are valuable in two very different ways, for you might give hundreds of pounds for a diamond and only a couple of shillings for the medicine, and yet the medicine might save your life, which most people think, as a rule, is of more value than many diamonds. How, then, shall we define value? The fact is, there are, broadly speaking, two kinds of value: (1) value in exchange, and (2) value in use; and many things which have very little value *in exchange*, have a great deal of value *in use*. Thus, water is very valuable in use, for we drink it, wash in it, and cook our food with it. But it has very little value in exchange, for you do not have to pay two-pence for a pint of water—unless possibly you were dying of thirst in an African desert, when a pint of water would suddenly assume a quite exceptional value. The best definition of value is that given by Professor W. S. Jevons, who calls it "proportion in exchange," that is, the quantity of one thing that we can get for a certain quantity of another: and the proportion of these quantities measures the value of a thing. Thus, we can get half-a-dozen oranges for a loaf of bread, or a shilling novel for a bottle of Bovril, or a pound of beef for two or three yards of calico. Thus, in the case of oranges and bread, the proportion is one to six: and there cannot be such a thing as value in exchange unless there is a proportion.

4. Money. But it may be asked, How do we measure the value of one thing as compared with another? The

answer is, by means of their *prices*, and these prices are expressed in *money*. Money itself is only another kind of commodity; but it happens to be (for reasons that will be mentioned afterwards) a commodity that is particularly well adapted for measuring the values of other commodities, and therefore is now universally used for that purpose in all civilised countries. Money has value in utility and value in exchange, like anything else, but because it happens to be very convenient as a *standard* whereby to measure the value of corn, beef, cloth, and all other articles of commerce, we always now speak of the value of things in terms of money, or, in plain English, *quote their prices*.

Thus, then, we have seen how commerce arises from the attempts made by men to satisfy their various wants, and that it is a vast and intricate process of exchange of commodities. Moreover, we have noticed that all commercial commodities must have a certain value, both in utility and in exchange, and that this value is, for the sake of convenience, measured in money prices. We have now to consider shortly the laws which regulate exchange in the abstract, and then we shall go on to the laws which regulate the exchange of goods between particular countries.

5. Why Commerce is Beneficial. Now, it is often said that commerce, being mere exchange, and not production, of commodities, is "sterile" and even "harmful," because he who gets a profit from exchange must do so at the expense of some other person, since the exchanger does not create or produce any new thing, but merely bargains one thing for another, and then one of the parties interested is sure to get the worst of the bargain. Such objections as these can only be made by people who do

not know the true facts of the case, or by theorists who do not deal with actualities as they really are. So far from the exchange injuring one of the two exchanging parties, it should, and does when fairly carried out, give both of them a distinct advantage. "It blesseth him that gives and him that takes," because the one only gives because he expects to gain some advantage in return, and the other only takes for the same reason. But what is it, then, that gives this double advantage in exchange? It is the great fact that "exchange consists in giving the superfluous for the necessary." If a farmer has more corn than he can possibly use as food for himself and family and as seed for his next crop, the remainder, the superfluous corn, is of no advantage to him, unless he can get rid of it for something that is *to him* more useful. If, on the other hand, a woollen manufacturer has more woollen goods than he can possibly use for his own clothing, his superfluous stock becomes useless *to him* unless he can dispose of it in some way or other. But if the farmer and manufacturer agree to exchange the superfluous corn for the superfluous woollen cloth, then both are benefited and both obtain an advantage. In fact, the superfluous corn and superfluous wool, which possessed no utility for their owners, now obtain by exchange a very great utility to the persons who want them, and thus both persons obtain a distinct advantage, but neither of them at the expense of the other. On the contrary, it is a mutually profitable transaction.

6. Supply and Demand. But of course it is obvious that such simple cases of exchange are by no means the rule in commercial life, though, at the same time, the whole fabric of commerce rests upon the principle which

is implied in the above example. The exchange of goods, and their exchange value, is affected by laws which govern all such transactions, and the operation of these laws is among the most important facts that a man of business has to know. The laws we refer to are those of demand and supply. "Supply" means the quantity of goods which people are willing to give in exchange, and "demand" means the quantity which people are willing to take in exchange. These quantities, of course, have a certain value, measured in money, *i.e.*, their price: and before any person can effect an exchange he must know the prices of things offered or required. If the prices of things offered are high, the demand will probably be thereby sometimes restricted, unless the things are so absolutely necessary that it is impossible to do without them. But, as a rule, prices are not high unless the supply is limited. If, owing to bad crops, the supply of cotton in India and the United States is small, it is very clear that the price of cotton in Liverpool and Manchester will be (comparatively) high—unless by some strange chance there were no demand for cotton in these towns. But if, on the other hand, to take another example, the quantity of superfluous wheat in Canada, America, and elsewhere is, owing to good harvests, so large that there is really more for sale than buyers in England require, it is clear again that the price of wheat will fall, because farmers will be trying to get rid of their superfluous wheat, and will take much less when they have plenty of it than when they have only a small amount for sale. These facts are so plain that it seems almost unnecessary to point them out, but as they are the result of laws which are universal in their operation, and which guide all commerce both between nations and individuals, it may be well to summarise them briefly as follows:—

Higher prices occur with a larger supply and a less demand.

Lower prices occur with a smaller supply and a greater demand.

But these laws can also be applied conversely, and are equally true if stated thus:—

A larger supply occurs with a lower price and a smaller demand.

A smaller supply occurs with a higher price and a greater demand.

Or again:—

A larger demand occurs with a less supply and a lower price.

A smaller demand occurs with a larger supply and a higher price.

These laws, however, must not be taken as being absolutely correct. They only show the *tendency* of prices, and are, of course, often prevented from their full development owing to other circumstances.

7. The Commerce of Nations. We have now examined the question of exchange in the abstract between individuals, and have seen the laws which govern it. The same laws apply to commerce between nations, and it cannot be too clearly pointed out that all commerce between nations consists in exchange of commodities, one nation exchanging with another those things of which it has an abundance or superfluity. Many people in former times used to think, and some misguided persons apparently think still, that commerce between nations consists in buying and selling and paying for sales and purchases in cash. This is a great mistake. Cash is used, of course, but only in comparatively small quantities: the vast bulk of inter-

national commerce consists simply and solely in the exchange of goods. This exchange must be beneficial to the nations concerned therein, and must give each of them an advantage, otherwise it is obvious that they would not engage in it. Of course, one nation may gain a *greater* benefit than another: but even the other must obtain a benefit also, for an exchange in which all the commercial advantage was on one side would certainly not go on for long. Even in this case it is difficult to say which nation gets the greater benefit. It seems to us that, if an African savage gives an English trader a large stock of valuable ivory in exchange for cheap coloured beads or inferior looking-glasses, it is the Englishman who gains the greater advantage. But probably the African savage thinks far otherwise: indeed, if he thought he was not getting good value for his ivory he would almost certainly refuse to sell it. As it is, the beads and looking-glasses have for him a value quite different from that which they have for us—and so both parties trade to their mutual satisfaction.

8. International Commerce is Barter. We come back, then, to our first proposition: that international commerce is merely exchange of commodities on a large scale, and that such exchange is mutually beneficial. This fact is often expressed by different writers on political economy in different ways, such as, “In the long run goods are exchanged for goods,” or “the commerce of nations is barter upon a magnificent scale,” and “money is simply an instrument to aid that barter.” It is important both for the man of business and the student of economics to hold fast to these fundamental truths, and to keep them clearly before his mind in the midst of present-day controversies about the commercial relations of one country

to another. In very ancient times, before money was much used, and when traders used to go out in small ships, taking out one cargo and bringing back a different one in exchange, the fact that international commerce was merely barter was to them "as plain as a pike-staff." The introduction of money, with all its great advantages, caused this first simple view to become obscured, till in more modern times the extended use of credit and credit documents, such as bills of exchange and cheques, has again brought economists back to a clearer view of the true state of the case. We shall now try to explain the relationships of international commerce more fully, and to explain some much-misunderstood statements about foreign trade, more especially the proposition that the value of imports must equal the exports, since exports are really goods sent out in payment for imports or goods received.

Those who wish to gain fuller views of the elements of political economy treated in this first chapter should read Professor Jevons' *Political Economy Primer* (Macmillan, 1/-), and Bastable's *Commerce of Nations* (Methuen, 2/6).

CHAPTER II

THE INTERPRETATION OF EXPORT AND IMPORT STATISTICS

9. The Excess of Imports. At the conclusion of our last chapter, the important statement was made that the total amount of exports and imports must balance one another in value; because in the long run goods are exchanged for goods; the exports are exchanged for the imports; and therefore they ought in theory to be of equal value. But the practical difficulty that troubles the minds of many merchants and other people more or less interested in commerce is, that on looking at the figures of our British trade no such balancing or equality can be perceived. On the contrary there is a large excess of imports over exports. How does this arise?

10. Facts and Figures. In the first case we must look at the figures as they actually stand, with the utmost care, and have the facts clear first, before we begin with theories. The custom of always taking facts before theories will help us to avoid many mistakes in political economy—mistakes which even professed exponents of the science often make from their neglect of facts as they actually exist. If we look at the figures of 1890, a year when our commerce was in a most flourishing condition, what do we find? We had then:

Imports.	£454,839,403
Exports	£353,077,748
Excess of Imports.	£101,761,655

This at first seems a very serious difference. One might be inclined to ask, was there any special feature about the commerce of 1890 to account for this very considerable discrepancy? But we can find nothing in that particular year more than in any other to afford a satisfactory solution of this difficulty. We do find, however, if we look at other years, a very noticeable fact, namely, that for the last thirty-five years *the imports of the United Kingdom have invariably been more than its exports*. Throughout all the fluctuations and vicissitudes of our trade, both in times of prosperity and times of adversity, the same excess of imports has been observed. The excess may have been greater or less in particular years, and it has often varied: but still an excess has always existed. In 1859 it was only £24,000,000; in 1877 it was as high as £142,000,000, which gave an excess of 22 per cent. on the total trade of the country; but, large or small, it has always existed. Hence we are compelled to conclude that the continuance of this excess of our imports must be due, not to any occasional or exceptional circumstances, but to something permanent in the conditions of our commerce.

11. Causes of Excess of Imports. (1) Interest. The explanation of this permanent excess is after all not very difficult. It may be divided into three main heads:

- (1) Interest on foreign investments.
- (2) Earnings of shipping.
- (3) Sundry payments and other earnings.

Let us take the subject of foreign investments first. It is

well known that many of the Continental railways, such as those of Spain, have been promoted by British capital. British investors have supplied the money for their formation, and naturally expect some return on the capital thus invested in foreign enterprises. British investors, again, have largely supplied the capital for the mines and railways of our Australian colonies, and expect a due return. British capital, in short, has been invested in enterprises of one kind and another in nearly every country of the civilised world; and, in consequence, these countries pay annually to investors living in Great Britain a certain amount of interest on the loans they have contracted. The total amount of interest thus annually paid amounts to a very large figure, which is estimated by high authorities at seventy-five millions sterling per annum or more. This item alone, therefore, will account for a large share of the discrepancy just quoted. In fact the amount of foreign debt held in England is enormous, both in the shape of loans to foreign governments and to foreign and colonial companies. There are said to be two thousand millions of such securities known on the Stock Exchange, and these by no means represent the total debts owing to people who live in the United Kingdom.

Some people, however, find it difficult to believe that this interest is not returned to us in the shape of hard cash, but in the form of imports. Yet such is the case. The loans are repaid not in money, but in goods. It is the interest of both borrower and creditor that the repayment should take this form, since both the foreign producer (who is the debtor and exporter) and the consumer in England (who is the creditor and importer) obtain a commercial profit on the transaction. Commerce, as we explained above, gives an advantage to both parties. And

though the individual investor may not always perceive this fact, because his dividends are paid to him by a cheque upon some bank, the fact nevertheless remains. So that it will be found that wherever any country, such as our own, stands in the position of creditor to other countries, and when the dividends on the securities which it holds are paid punctually, its imports will greatly exceed its exports, because this surplus of imports represents the dividends which it has to receive. Hence, as the late Professor Thorold Rogers so clearly explained "a vast excess of imports over exports does not mean that the country is spending more than it receives, but just the contrary, receiving more than it spends, and receiving it in the most advantageous manner."

12. Shipping and Freight. (2) We come, secondly, to the earnings of British shipping as affecting import and export figures. Of course it is obvious to all that the cost of freight in carrying goods from one country to another must reach a very considerable total upon a volume of trade so large as ours. The carrying trade itself also is one of much importance, employing much capital and labour, and producing a certain amount of profit derived from the capital and labour thus employed. This profit evidently will go to those individuals who own or build or work the shipping thus engaged in the carrying trade, and who are, of course, paid for the services which they thus render to commerce by the transport of commodities. Of the total gain earned by shipping all over the world it is plain that the largest amount will come back to that country which possesses the largest amount of shipping. Hence, as Great Britain possesses the largest amount of shipping we must expect a very considerable profit to accrue to those en-

gaged in the British shipping trade. This is actually the case. British ships not only carry goods between the United Kingdom and foreign countries, but between foreign countries themselves also. It is estimated that the shipping owned by British capitalists is 70 per cent. of the total engaged in the carrying trade of the world; and that its earnings amount to between forty-five and fifty millions per annum.

It should, however, be noticed that when an article is imported into England its value is declared at the port of entry, and similarly when an article is exported its value is declared at the port of exit. But in the case of imports the cost of carriage or freight is included, while in the case of exports it is not included, because the freight is not yet paid, but will be paid on its arrival at the country to which it is sent. Hence the value of imports is always increased by freight and that of exports lessened thereby. This addition to or diminution from values has been well called by Mr. Giffen, "the invisible export and import." But, though invisible, it is none the less real, and considerably affects the figures of our trade, for the cost of freight is variously estimated at from 11 to 15 per cent., taking it all round.

13. Various Other Circumstances. (3) We have now mentioned the two most powerful influences that affect our export and import figures. There remain a few other circumstances that are worthy of attention, and which, though singly they may not be of very great importance, nevertheless, affect the total figures more or less. Such are, for example, remittances sent to people living out of England by their friends or debtors in this country; and when we consider how large is the number of English people living abroad,

this feature will, no doubt, form a considerable item. Then, again, there are similar remittances made by settlers in the colonies to their relatives at home. It is said, for instance, that hundreds of post-office orders sent by successful colonists to their friends "at home," are received in England by every mail. Then there are Government payments made abroad, and payments made by the Indian Government to retired officials in England. There are also the gains of English traders and professional men now residing in foreign countries to be taken into account. Taking all these sundry items together it will easily be seen, that, though not so important as the two first mentioned, they must affect the received figures in no small degree.

14. Exports and Imports—the United States. Such then is the interpretation of the export and import statistics of our own country, given in broad outlines. Similar interpretations can easily be given of the figures of any other country, if we study carefully its commercial development as a whole, and do not allow ourselves to be led aside by some one special circumstance. It will generally be found in studying any one country that its "international indebtedness," or its relations as debtor or creditor to other countries, will seriously affect its exports and imports. Thus, *e.g.*, the country which has the largest exports is the United States, and they export far more to Great Britain and Europe than they import. This is explained very largely by two facts: (1) that a great deal of British capital is invested in American securities and is, therefore, continually receiving interest (in the shape of exports) from the States; and (2) Americans travel and reside in large numbers both in England and Europe, and are constantly drawing on their own country for their necessary

expenditure. It is reckoned that the expenditure of Americans in Europe is not less than ten or fifteen million pounds more than the money spent by Europeans similarly travelling in America.

Having now dealt with exports and imports as part of international commerce regarded as a huge system of "international barter," we may next consider how far money is called in to help in this process of barter of commodities, and how far currency questions help or hinder commerce.

For further reading on export and import figures consult Thorold Rogers' *Economic Interpretation of History*, ch. xviii.; the article on "British Commerce" in the new *Dictionary of Political Economy*; Bastable, *Commerce of Nations*, ch. iii.; and R. Giffen, *Essays in Finance*.

CHAPTER III

FOREIGN EXCHANGES

15. International Indebtedness. In the previous chapters we have endeavoured to explain the leading principles of international commerce; and have shown that all commerce between nations is a kind of barter on a large scale, in which the goods of one country are exchanged for the goods of another country, and in which money is comparatively little used. We say comparatively, because, considering the enormous mass of trade done between various countries, the amount of money used to facilitate that trade is comparatively small. That it is used, however, of course no one will deny; but strange though it may seem, it is not money that is at the root of the difficulties of the theory of foreign exchanges so much as what is termed international indebtedness. "Discussions are sometimes held," says Mr. Goschen, "on the state of the foreign exchanges in which attention is paid mainly to the value of money in different countries, to the amount of bullion held by each, and to the relative position of their paper currency—points, no doubt, of the highest moment in *influencing the fluctuations* in the exchanges, but nevertheless subordinate to the question of relative indebtedness, *which remains the first and most material element*. In studying

the subject as a whole it is above all things necessary to form a clear view of what is meant by international indebtedness."

16. Bills of Exchange in Commerce. In order to gain a clear conception of this great underlying fact, let us look closely into the operations of commerce between nations, and see what actually happens. As the result of trade between (say) Great Britain and the German Empire, a certain portion of the community, or certain merchants and traders, in Germany have become indebted to merchants and traders in England; and in order to save the trouble of sending bullion or coin (the forwarding of which is always risky and expensive) the indebted portion of the community in Germany seeks out some other portion, also in Germany, to whom a similar amount is owing by English merchants; then, after buying up these debts, it hands them over in payment to its own creditors in England. Thus the claims of the English merchants first mentioned are transferred to other hands and can be collected with comparatively little trouble. Or again, to make matters clearer, we may take a concrete case. A merchant in London, Smith, has exported English cloth worth £100, to his correspondent, Lebrun, in Paris. At the same time, by chance, some French merchant in Orleans, called Pierre, has exported £100 worth of claret to another English merchant in Birmingham, called Jones. It would be very cumbrous and troublesome if Lebrun in Paris had to send £100 in French money to Smith in London, and at the same time Jones of Birmingham remitted £100 in English money to Pierre of Orleans. But this need not be done. Smith can draw a bill on Lebrun of Paris for the amount which Lebrun owes him, and then can sell that bill in

England to Jones, and thus be paid. As this same bill for £100 happens to be drawn on a French firm it will obviously be very convenient for Jones to send it by post to Pierre of Orleans, who can recover its value in France from Lebrun in French money, without any difficulty and without any exchange from the currency of one country into that of another. In fact, Smith has transferred his claim, in consideration of proper payment, to Jones, and Jones has used it for paying his debt to Pierre; while Lebrun merely pays Pierre instead of Smith, and the whole transaction is easily and conveniently settled. And all this is done without sending a single franc or shilling either to or from England or France.

17. Bills and Bullion. Thus, then, we see the use of *bills of exchange*, and how greatly they facilitate international commerce. In fact, to quote Mr. Goschen again, upon considering the debts of one country to another we “find them finally represented by, and embodied in, a constant mass of bills of exchange.” But, as regards these bills themselves, we shall have to ask several questions. We must inquire whether they are payable at once or at some future date; whether they represent a final and complete transaction or only a portion of a commercial operation; and further, we must consider how the interest, the credit of the debtors, the readiness of the creditors to wait, and the fluctuations of the currency in which these bills are payable, will affect their exchangeability. All these circumstances will naturally affect to a very considerable extent the price of bills. Moreover, so far, we have only taken cases wherein the amounts owed by two foreign countries or merchants to each other were exactly equal; whereas, of course, this hardly, if ever, happens. What does happen

is that the amounts mutually owed by these foreign countries are *not* exactly equal and that the balance has to be made up by one or the other in cash. Then certain amounts of bullion (*i.e.* uncoined metal) or specie (*i.e.* coined metal) have to be sent by one country to the other to redress the balance, just as would happen in the case of two individuals. This is what is constantly going on.

18. Premium and Discount. But, as we have said, the forwarding of money, either bullion or specie, is troublesome, risky, and dangerous. The result is, that people seek to avoid it as much as possible, and therefore try instead to buy bills of exchange drawn on the country to which they owe money. Hence there is always a process of sale going on in foreign bills. But how, it may be asked, do the bills themselves vary in value so much as they do? Why is not a bill for £100 exactly equivalent to £100, neither more nor less? It would be so if there were no such circumstances as we have just alluded to above to be taken into account; and if the liabilities of any given country to another were always equal to its claims upon that other. But as it is, the relations of the liabilities to claims are always varying, and hence it arises that the value of bills is slightly increased or diminished. Thus, if (say) a large number of English importers have incurred debts to French merchants and have larger remittances to make to France than can be covered by buying bills, it will be obvious that a balance will have to be remitted in cash. Consequently those who wish to pay their debts to France will try to avoid having to send cash, and will try to secure what bills on France there may be in the market, even giving something more than the nominal value of the bill rather than not get it. Bills on France

would then be said to be at a *premium*; and by giving such a premium, which is a slight loss to them, those who buy the bills secure themselves against the greater loss in freight, insurance and interest which is always involved in the remittance of bullion. Supposing, however, that the contrary is the case, and that people in England who have bills on France find that few merchants or others happen to need them in order to discharge their liabilities, then the bills instead of selling at slightly more than their nominal value will sell at rather less, or in other words will be at a *discount*. In actual life, bills are always fluctuating in this manner, being generally either at a discount or at a premium, and very rarely at their nominal value, or at *par*.

19. Mint Par of Exchange. But there is a certain limit to these fluctuations, and there are certain facts which prevent the premium going beyond a certain point. This depends upon the *mint par of exchange*, which is not the limit itself but which helps us to find the limit. The mint par of exchange is the relation of the standard coins of two countries as determined from their intrinsic value—*i.e.*, from the weights of gold and silver which they contain and from the degree of fineness of these metals. This becomes clearer if we take an actual example. The English sovereign consists of twenty-two parts pure gold and two parts or one-twelfth alloy (*i.e.* twenty-two carats fine), or “916·66 fine” (1000 being pure). But the French gold coin, the twenty-franc piece or Napoleon, is only “900 fine,” one-tenth being alloy. Consequently the intrinsic value of £1 sterling in French money is 25·225 francs, and this is the *mint par of exchange* between the two countries. (This is not the same as the *rate of exchange*,

which is merely the value or price of the money of one country reckoned in that of another and which is constantly varying.)

20. Favourable and Unfavourable Specie Points.

Now, bearing these facts in mind, let us suppose that A, a London merchant, wishes to remit £1000 to Paris. First of all he will try to buy cheques or bills on Paris, and will pay for them in London in sovereigns. We will assume for the present that a cheque and a bill are the same thing. If there are plenty of bills to be had, A may get the mint par of exchange or even a little more for his sovereigns, and thus get the bill at a little less than its nominal value, *i.e.* at a discount. But if bills on Paris are scarce he will get rather less than the mint par for his gold, and will have to give a premium for the bill. Now, it costs about ten centimes per sovereign to transmit gold from London to Paris, so that, if the seller of a bill on Paris, when such bills are scarce and at a premium, reduces the exchange to less than 25·225 francs *minus* ten centimes, *i.e.* to 25·125 francs, it is clear that it will be cheaper for A to send his gold over to Paris rather than to buy a bill, since he is only offered 25·125 francs for the £1. In this case the rate of exchange has touched the *unfavourable specie point*, but lower than this it will not go, because if it did people would take to sending over money and would not buy bills. By the same process of reasoning it becomes clear that the exchange cannot rise higher than about 25·325 francs, or ten centimes above the mint par. This point is called the *favourable specie point*. So we come to the following conclusions:— (1) That the prices of bills, cheques and money fluctuate according to the laws of supply and demand, which laws depend primarily upon

the relations of international indebtedness; (2) that the fluctuations in exchange depend upon the mint par, but cannot exceed the cost of transmitting gold, either above or below the mint par. To which we may add (3) that theoretically the rate of exchange tends to be identical at all times, because practically bills and cheques only represent so much gold, and the fixed article really dealt in is the number of grains of gold contained in a coin.

21. Varying Values of Bills. But, as a matter of fact, the rate of exchange, especially in the case of bills, is constantly varying beyond the specie points from other causes besides those of supply and demand already mentioned. In the first place there is the *credit* of the drawer and acceptor of the bill, which may be good, bad, or indifferent; and it is clear that people will give less for a bill drawn upon a person whose credit is unsound than for one drawn upon an acceptor whose credit is firmly established. But even then, supposing the credit is all right, the question arises as to what deduction should be made in consequence of the bill, which is bought for ready money, not being payable until some future date—say one, three, or six months. And here we see the difference between bills and cheques, for cheques are payable at once and bills are not. In the case of a three months' bill the deduction will represent the rate of interest for three months in the city where the acceptor resides. Thus, London may quote three months bills in Paris at 25·45 francs; and if the discount rate at Paris is four per cent, this would make the "short" London quotation—*i.e.* the quotation for short bills or cheques—on Paris 25·19 francs, the difference between these two rates being the interest on £1 for three months at four per cent. All these fluctuations in the price

of bills—*i.e.* in the rate of exchange—are very important, and often hard to follow. But it is the prices of *short* bills or cheques and not those of *long* bills which determine the course of shipments of money in bullion. As we have said, people who owe money generally try to avoid sending bullion, but sometimes, of course, this has to be done, especially if the creditor country happens to need bullion for some special purpose.

22. Arbitration of Exchange. In some cases it is curious to notice that it is advantageous to remit money to a foreign town, not directly, but through a third place. For instance, an English merchant may, instead of buying a bill on Paris, buy a bill on Berlin or Frankfort which may be exchanged in the German market for one on Paris, and he may thereby save some money. This calculation of the course of exchange between two places, from a comparison of the course of exchange of some third place, is called arbitration of exchanges. The following example (from Pendlebury's Arithmetic) will show how money can be saved by this means:—A person in London wishes to remit a debt of 1016 pistoles to Madrid. He finds that the rates of exchange are: one Spanish pistole = 15/- English, and £1 = 25.4 francs; and also 19 francs = one pistole. Sending 1016 pistoles direct at 15/- per pistole will cost him £762; but if he sends it through Paris it will only cost him £760. As thus: 1016 pistoles = 1016 × 19 francs; and 25.4 francs = £1; therefore the sum is £1016 × 19 ÷ 25.4 = £760. On very large remittances much may be saved in this manner.

23. Summary of Laws of Exchange. We may now sum up the facts of foreign exchange thus:*

*Adam's *Commercial Correspondence*.

(1) *Exchange* is a transfer from the money of one country to that of another effected by the operation of bills of exchange. (N.B.—Cheques are practically short bills.)

(2) *Rate of exchange* is the value or price of the money of one country reckoned in that of another.

(3) *Mint par of exchange* is the relation of the standard coins of two countries as determined from their intrinsic value.

(4) *Course of exchange* is the variable sum of the money of one country that will be actually given in exchange for a fixed sum of the money of another.

(5) *The arbitrated price or rate of exchange* between two places is the variable sum of the money of one country that can be had for a fixed sum of money of another country by remitting bills through a third place.

Consult, first and foremost, *The Theory of the Foreign Exchanges*, by the Right Hon. J. G. Goschen, M.P.; also Tate's *Modern Cambist* 21st edition; the article in *Hazell's Annual* for any year; and J. S. Mill's *Political Economy* ch. xx., par. 2.

CHAPTER IV

BIMETALLISM

24. IN our last chapter we treated the subject of the Foreign Exchanges, and perceived that what is exchanged between two countries in commerce is goods, that in the long run payment for goods is made in goods, the means of payment being, to a large extent, bills of exchange. We further saw that though money, in the form of coin, is used to some extent, it is not used to anything like the extent that might have been supposed, but on the contrary is employed mainly to settle up the (comparatively) small balances which international commerce leaves in the case of one or other of the two countries trading. But though the employment of actual coin is thus relatively small compared with the great mass of international trade, it is yet large enough to cause considerable trouble when, as frequently happens, and has happened lately in an especial manner, the money used by different nations is of different kinds and of varying values. The difficulties which bi-metallism seeks to remedy are caused by the fact that some countries use gold as their standard metal for coinage and others use silver, and that the relative value of silver and gold has of late years fluctuated very considerably. It has been stated that out of the total of 1400 million people

who inhabit this earth only 400 million employ gold for their standard coin, and most of the remaining population (if they employ anything at all, which they often do not) employ for their standard coins silver.

25. Bimetallism. But now we come to the questions: What is meant by bimetallism? and, What do bimetallists hope to accomplish? Bimetallism really means two-metallism instead of monometallism or one-metallism. That is to say, instead of making only one metal, as gold in England, the sole metal which is legal tender up to any amount in commercial transactions, the two metals, gold and silver, should each be used as legal tender to any amount. But then it would happen, if no means were taken to prevent it, that debtors, both inland and foreign, who owed money would always try to pay their debts in the cheaper of the two metals, and thus save a portion of their debt. This the bimetallists hope to avoid by fixing a certain ratio of value between gold and silver by law, so that there should be no fluctuation in their relative values. The proposed ratio is $15\frac{1}{2}$ of silver to 1 of gold. That is, if a man owed a debt of any amount he could pay it in silver or gold, just as he liked, but should always give $15\frac{1}{2}$ times as much silver as gold in payment.

26. Measures Proposed by Bimetallists. This would involve the supposition that silver is always and invariably only $15\frac{1}{2}$ times less valuable than gold. But, as most people know, it is not so always and is not so invariably. The value of silver has varied from $15\frac{1}{2}$ times to 22 times less than that of gold. How, then, are we to stop these fluctuations in value? The bimetallists answer: (1) By fixing

the ratio of $15\frac{1}{2}$ of silver to 1 of gold by law; (2) by throwing open the Mint for the coinage of both metals equally to any extent that may be required by the public (whereas at present in England only gold can be thus freely coined); (3) by enacting that either metal may be used as legal tender up to any amount in paying debts (whereas at present in England silver is only legal tender up to £2). It is said that by adopting these measures we shall do away with all the fluctuations in the price of silver which have caused so much trouble to our British merchants and their customers, especially in the East.

27. The Fall in Silver and Eastern Trade. It would certainly be desirable to do away with them, if it were possible, because in trading with countries which use silver as their standard ("silver monometallists" as they are called) these fluctuations in the value of silver as compared with gold produce great fluctuations in the prices of the commodities of trade, and indeed to every class of the community. This is especially felt in dealing with India and China, who use only silver as their legal standard. In India money is exclusively silver; in England it is exclusively gold. When India has a payment to make in London she can therefore only send silver. But since 1871-73 silver has declined from 12 to 20 per cent. in value as compared with gold, and consequently every remittance sent from India to England, whether by a private person (such as an officer sending home money to his family and a merchant paying for his imports), or by Government when remitting money to the home Government, has been reduced to that extent. The rupee, which was worth 1s. 10 $\frac{3}{4}$ d. in the period 1869-74 and 1s. 6 $\frac{3}{4}$ d. in the period 1882-87, is now only worth 1s. 2 $\frac{5}{8}$ d. Again,

the trade with India, China and South America is subject to constant fluctuations because the silver received in payment has no stable value. The present price of silver is only a little over 3s. 3d. per ounce, though at one time (1844) it was worth 4s. 11½d. an ounce.

28. The Causes of the Fall. Of course it is natural to ask at once: What has caused this remarkable fall in the value of silver? The answer is given differently by different persons. The bimetallists say it is because the Latin Union (as the countries concerned in the coinage treaty of 1865 are called, consisting of France, Belgium, Switzerland, Italy, Greece and Roumania), which had practised bimetallism for eight or nine years, gave it up to a large extent in 1874. Up to that time in France a definite ratio of 15½ of silver to 1 of gold had been fixed by law, and silver was legal tender as well as gold up to any amount, and was also freely coined. But in 1874 the coinage of silver was considerably restricted and in fact practically suspended, the free coinage of silver at a fixed ratio to gold being given up. Shortly before this, Germany, in 1873, had adopted monometallism with gold as a standard, and demonetised about £32,000,000 of silver. These severe shocks to the coinage of silver are said to account sufficiently—or at any rate to a very large extent—for the fall in its price. We may add to these historical data the often-forgotten fact that at one period of our history England was also practically a bimetallic country, though it has now long since given up the double standard. Up to 1783 every man might make his payments in gold or silver, at his option. But in 1798, shortly after the suspension of cash payments by the Bank of England during the great war with France, the English

Government suspended the coinage of silver, and in 1816, on the resumption of cash payments, formally adopted gold monometallism, and England has been a monometallic country ever since. Thus we see that bimetallism, after being tried by three of the greatest European powers—France, Germany, and Great Britain—as well as by several smaller states, has been given up. This surely shows that it is not quite such a useful thing as bimetalists would have us believe.

29. Criticism of Bimetallist Arguments. We have referred to the history of the question because bimetalists have based an important argument upon it. They say in effect: “We know that several countries have given up bimetalism, but it is just because they gave it up that the price of silver has fallen so much. It has fallen chiefly since 1873 or 1874, when France and Germany abandoned bimetallism; but if this system was once more adopted, you would find the price of silver going up again. Moreover, the fluctuations in the value of silver would not be so great as they are now.” This sounds plausible, but as a matter of fact it is based on a misconception of facts. The great fall in the price of silver did *not* take place in 1873 after giving up bimetallism. It only took place many years after, namely in 1886, and then from very different causes. This statement is proved by the following table of statistics showing the average ratio of silver to gold for twenty years—from 1867 to 1886—in which I take, for the sake of brevity, only every fifth year:—

Ratio in 1867	silver	15·65 to 1	of gold.
1872	„	15·64 to 1	„
1877	„	17·19 to 1	„
1882	„	18·27 to 1	„
1885	„	18·63 to 1	„
but 1886	„	22·0 to 1	„

Hence it will be seen that the greatest drop in value was between 1885 and 1886, when silver dropped twice as much as it did between 1872 and 1877. Therefore, it is clear that the abandonment of bimetallism did not do what it is said to have done, and so we may very well doubt whether its re-adoption would do all that is expected of it.

30. Fluctuations in Silver. But, again, bimetallists say, if their scheme is adopted, even though the *price* of silver may be as low as ever, yet that price will be a steady one and the *fluctuations* in price will be less. They say that before 1873 the average variation in the price of silver was only $\frac{5}{16}$ d. per ounce, while since then the variation has been far more, viz. $1\frac{1}{8}$ d. per ounce. The answer to this may be given from our own English experience as quoted from newspapers of the eighteenth century by the late Professor Thorold Rogers. When England was a bimetallic country, when the price of silver was fixed by law at 5s. 2d. an ounce, and when its coinage was strictly regulated, as *e.g.* in the year 1759, the price of silver varied as much as $1\frac{3}{4}$ d. an ounce and was often 4d. or 6d. different from the legal price. Facts like these show that no reliance can be placed upon bimetallism as a means of steadying prices, and that no regulations of government can fix prices in opposition to the natural laws

of supply and demand which rule the markets of every country in the world.

31. Why Silver has Fallen. The fact of the case is, that silver has fallen in value for the same reason that other articles fall in value—its supply has increased more than its demand. Silver and gold are commodities just like anything else, and it is as useless to fix the price of these metals by law as it would be to fix the price of bread and meat. The production of silver has increased faster than the production of gold, and consequently there is a larger supply of silver in the market than there used to be, while there is less gold. Hence, it is only natural that the price of silver as compared with gold should decline, and it cannot be helped. As for fluctuations in price, they are a consequence of the circumstances of modern international commerce, and cannot be helped either. The prices of corn, cotton, and iron fluctuate, and so does that of silver. The laws that govern one govern the other. It is impossible to regulate prices by law, and any attempt to do so is foredoomed to failure. The only thing to be done is to face the situation boldly and to readjust the Indian system of currency (for that is the point which affects Englishmen most) upon another basis.

We may add that the cause of bimetallism has now received a considerable check from the rejection by the present Parliament (on February 28th, 1893) of Sir H. Meysey-Thompson's motion, which ran:—"That in view of the growing divergence of value between gold and silver, and of the serious evils resulting therefrom, this House urges Her Majesty's Government to use its utmost

influence to procure the reassembly of the Monetary Conference, and to find some effective remedy in concert with other nations." But this motion was lost by a majority of eighty-one, and Parliament very wisely refused to try to regulate by law the prices of commodities.

In the above chapter it has only been possible to touch one or two of the main points of the subject, but readers will find it more fully discussed in my article "Some Criticisms of Bimetallist Arguments," in the *Westminster Review*, vol. 131, No. 6. See also the article "Bimetallism," in the new *Dictionary of Political Economy*, with a full list of works on the subject at the end; the article on "Bimetallism" in *Hazell's Annual* for 1887 and 1893; R. Giffen, *Essays in Finance* (1880); and E. de Laveleye, *International Bimetallism*.

CHAPTER V

FREE TRADE AND PROTECTION

IN the previous chapters we have been discussing various features of international commerce and of trade as carried on between one nation and another. We dealt last of all with bimetallism, as affecting the monetary relations of different countries, but now we turn back again from monetary matters to the broader and more general features of the commerce of nations. We may with advantage discuss one broad and general law upon which most people are agreed in theory, but which many think might be altered in practice—the law that all trade between various countries should be free from any artificial restrictions. This is what is meant by free trade.

32. Natural Restrictions on Trade. Of course there are many restrictions which are not artificial, but are due to natural and physical causes. Such are the restrictions of transport caused by mountains or oceans, as, for instance, by the Atlantic, which is a barrier to trade between the United States and Great Britain. There is a natural restriction, in this case, on any trade done between these two nations, owing to the cost of transporting commodities by a voyage of several days from shore to shore. It has been

estimated by eminent authorities (Sir James Caird and Professor Thorold Rogers) that it costs about 9s. to 11s. per quarter to transport wheat from Chicago to Liverpool, and this is of course just the same as a protective tax upon wheat imposed by Great Britain. That is to say, if Great Britain and the United States were contiguous, without being separated by any physical obstacle, Great Britain might put on a tax of 9s. or 11s. per quarter on wheat and still wheat would remain at the same price as it is at present. So, too, natural restrictions exist between Switzerland and Italy in the case of the Alps, which have made the building of railways difficult and costly, and have thereby greatly increased the cost of transport between these two adjacent countries.

33. Reciprocity. Now, most people agree that the fewer restrictions there are on trade the better; but many do not perceive that, by imposing taxes on foreign productions when coming into a country, they are in reality restricting the traffic in these commodities. They imagine—and so far they are right—that, by putting these taxes, or protective tariffs, on our goods, foreign countries are doing us an injury, for the foreign consumer has to pay more for them and therefore may have to buy less than he otherwise would, and thus trade is injured. But they also imagine that in retaliating by putting heavy tariffs on the goods of the other country, they will benefit their own; and here they are wrong. They would say to the other country, in effect: “If you will not take our goods without taxing them by your tariffs, we shall tax yours, and then our people will buy less of them, and so your trade will be diminished. In fact, if you do not take more of our goods, we will take less of yours.” But what would

be the result? Suppose, for example, we began in a spirit of "reciprocity," as this is called, to put such a tariff on the goods of some foreign country that it reduced our annual importations of its goods into England by £5,000,000 per year. This reduction of imports would mean a corresponding reduction of exports on our part, for it has already been explained that, on the whole, exports and imports always balance one another. Hence, England would also lose £5,000,000—just as much as the hostile country, and thus there would be a total loss of £10,000,000 on the whole commerce of the two countries, besides a certain rise in prices to the consumer.

34. Impossibility of Reciprocity. Moreover, reciprocity—or retaliation, to call it by a better name—is probably impossible in the case of England. Among the numerous commodities which we import there is hardly one which we can afford to tax without doing great injury to some commercial class or other in this country. It is often forgotten that ninety-one per cent. of our imports consist of food products, or else of raw materials for manufacturing purposes. To tax the former would seriously affect the incomes of the wage-earning classes, while a tariff on the latter would certainly lead to a great outcry among our manufacturers. The other nine per cent. are made up of many different commodities, hardly any of which, taken singly, are important enough to be used as a weapon wherewith to coerce foreign countries.

35. Why Should We Remain Free Traders? But, although reciprocity would thus seem to be impossible in our case, it is nevertheless frequently asked: "Why should we in England *alone* remain free traders, while nearly all other

countries adopt a protective policy? What is a single free trade nation to do when other countries—such as the United States in the McKinley Tariff Act—are becoming more and more protective? Is it any good our being free traders at all?" To which it may be answered in the first place that, as far as history and figures go, it is very certain that it has been greatly to England's advantage to adopt free trade in the past, and that as it has paid us, and is paying us, so well, it is foolish to change our policy. No other country has had such an enormous increase of foreign trade as our own in the last fifty years, and what increase there has been in the trade of foreign countries has *in no case* been in the same proportion as ours. Then, again, it may be answered that international commerce is only the aggregate of the vast number of transactions of single merchants; that of these merchants no single man trades voluntarily with a foreign merchant unless he obtains some advantage or profit, and may safely be trusted only to do business when he sees a fair prospect of gain. And, as long as *he* gains, what does it matter if the other party to the bargain gains also? It has been already pointed out that in commerce a mutual advantage must always be obtained, else one of the two parties trading will refuse to continue it; and, therefore, so long as we in England gain, as our figures of trade show that we must be doing, it matters little to us how much other nations may gain at the same time. Moreover, each man generally knows what he wants to buy or sell better than his Government can possibly know for him, and therefore will buy or sell to the best advantage, if only he is left free to buy and sell as he chooses. All duties are impediments to trade; therefore, the fewer duties the fewer impediments there are. We can remove our own duties, but cannot remove

those of our neighbours. Still, by removing our own we move away half the impediments from our path, and therefore it is better to be free traders even with half the impediments to international trade in our path, than protectionists or reciprocalists with the whole system of impediments blocking and hindering our way. Even as it is, however, hostile tariffs, though troublesome, are not an absolute barrier to our merchants; and a free country has so many advantages in production that it can and does compete with protectionist countries even in the protectionists' own home markets. These advantages are, for instance, cheaper raw materials for manufacture, and cheaper food for labour, both of which are important items in the cost of production. There are besides many neutral markets among the less civilised states of the world, and in all of these a free trading country, owing to its lessened cost of production, has many advantages over its protectionist rivals.

36. Division of Labour. Such are some of the answers that may be given to protectionist questions. There remains, however, one aspect of free trade which deserves a fuller mention, and that is, that it encourages the "division of labour" which is already perceived to be so useful to manufactures, and which is just as useful when applied to the industry of a whole nation. There is no need to enlarge upon the utility of a proper division of labour, for all are agreed on this point. All perceive that by such a division the productive forces of labour are employed to the best advantage, each workman doing that portion of the work for which he is best qualified. And, as a rule, the larger the number of workmen the more effectually is the division of labour carried out. We see that

in a country like our own with a large population, each portion of the country devotes itself chiefly to the production of such commodities as it is best fitted to produce. Agricultural counties, such as Lincoln and Buckingham, devote themselves to crops and cattle rearing, while Lancashire and the West Riding of Yorkshire are chiefly occupied in manufactures of cotton and woollen goods. By means of this division each county produces more abundantly and more cheaply and in greater perfection those things which it is best fitted to produce, and exchanges them for the produce of other counties. But the benefits thus gained by a suitable division of labour would be altogether lost if each county was to determine to shut itself off from the others, and to try to contain within itself all the trades and manufactures which had till then been the speciality of its neighbour. We see at once that, though such a procedure might be possible after a great amount of unnecessary trouble, it would be very foolish, very disadvantageous, and very expensive. Every county that tried this scheme would be a loser, because the capital and labour which had formerly been devoted to those employments for which they were most suited would now be diverted from these to a variety of others for which they were less competent. If, for example, the pottery district of Staffordshire were to determine to shut itself off from Yorkshire and make all its woollen and worsted goods for itself, no doubt it could with some difficulty do so, but it is clear that it would be a very foolish proceeding, for it is much more advantageous for all parties that Yorkshire and Staffordshire should produce chiefly those manufactures which they can produce best, and then exchange them one with the other, rather than to attempt to become such a self-contained and independent community.

What applies to counties applies equally to nations. It would be just as absurd for England to determine that she would not exchange her manufactures for foreign corn, but would, at great expense and trouble, shut herself off from America and Russia and grow all she wanted for herself. She *could* do so, but only at a decided loss, and would meanwhile lose a great portion of her trade with America, because the Americans, not being able to send corn in exchange for our manufactures, would cease buying our manufactures to a very large extent, and thus trade would be decreased.

37. The McKinley Tariff. It is evident, therefore, that protection tends to prevent the most suitable division of labour among the countries of the world, and that it is bad policy for each country to try to shut itself off from others by protective tariffs in order to keep up some manufacture which another country can produce much more cheaply and more effectively. Yet this is just what the United States have been trying to do by the McKinley tariff. Fortunately the Americans have already begun to see the folly of this measure, and there are hopes that it may be modified. It has been well criticised by Sir Lyon Playfair: "Its whole object," he says, "is to decrease foreign imports, and the decrease of import taxes is estimated at £20,000,000 sterling. See how this will act on the American farmer. An individual may purchase food and pay for it in gold, but a nation when buying pays in commodities, gold being only used to settle the balances of exchange. If the Act succeeds in largely lessening English imports of goods by the exorbitant duties imposed, England must buy food from other countries which will take our manufactures in exchange. This will be disastrous

to American agriculture. Of the total exports from the United States seventy to seventy-five per cent. (in. value) are products of the farm, including raw cotton, and England is by far the largest buyer of them. Of the cattle exported, England buys nearly all, in fact ninety-eight per cent.; of Indian corn we buy fifty-nine per cent.; of wheat sixty-eight; of oatmeal ninety-six. Is England to continue to be her chief market? Forty-five countries compete with the United States in offering to sell us food, and we must in future buy from those which will take our goods in exchange. Canada, Australia, New Zealand, and India are all hoping to secure the food market which the United States are so recklessly throwing away. Hence the poor American farmers see their markets dwindling, and yet find that their clothes, their implements, their domestic utensils are all raised in price to enrich a few manufacturers." Such is the effect of protection at present in America, and it is clear that this policy is creating considerable loss to the nation.

For further reading see Montgredien's *Free Trade and English Commerce* (Cassell & Co., 6d.); Sir Lyon Playfair's speech on *The Tariffs of the United States* (Cassell & Co., 3d.); Farrer's *Free Trade versus Fair Trade* (published by Cassell & Co. for the Cobden Club, 5/-) and Bastable's *Commerce of Nations* (Methuen, 2/6).

CHAPTER VI

THE COMMERCIAL POLICY OF OUR COLONIES

WE have seen, so far, that many, indeed most, countries are at present protectionist in their policy, but that, nevertheless, it is better for England to adhere to free trade, even though she stand alone. We now turn to the case of our own colonies, and observe what line of policy they have adopted. We shall perceive that, unfortunately, it is of a very reactionary and retrograde character.

38. Colonial Self-Government. In the last century all nations who possessed any colonies outside Europe used to hold the doctrine that these colonies were merely appendages of the mother-country, and as such should be governed, and their trade should be regulated, chiefly in the interests of the mother-country. Colonies were to be simply useful materials for increasing the power and wealth of the nation from which they sprang. But two great historical events served to do away with this doctrine. These were—(1) the revolt of the English colonies in North America in the War of Independence; and (2) another revolt, equally important, though often forgotten by English readers, namely, that of the colonies of Spain in America during the period 1809 to 1824. From this

time forward, the policy of European countries towards their colonies underwent a remarkable change; and England distinguished herself, early in the reign of Queen Victoria, by granting the right of self-government to some of her more important possessions. The first colony to receive this valuable privilege was Canada in 1840, and this granting of what is known as "responsible" government to Canada, has been very truly described as the principal event in our modern colonial history—for it inaugurated a new policy that has had far-reaching effects. After Canada, the colonies of Australia and New Zealand, and then the Cape of Good Hope (1872) were allowed to govern themselves.

39. Colonial Trade Policy: Canada. But this right of self-government carried with it also the right of raising revenue in any way that might seem most suitable to the government of each colony, even though this might involve the taxation of British products by import duties. No doubt it was hardly thought at that time that our colonies would tax British products, especially as England had just at that period declared in favour of a free trade policy, and had, under the influence of Huskisson, Peel, and Cobden, reduced or entirely abolished most of the customs duties upon imports into the United Kingdom. If such a step had been foreseen, it is probable that the home Government would have taken measures to keep some control over the legislation of our colonies, as regards tariffs and customs. But, as it was, each colony obtained full powers over its commercial policy, and soon proceeded to use them against its mother-country. At first, the system of placing low duties on imports, merely for the purposes of revenue, was adopted, but before long these

low "revenue tariffs" developed into customs systems of an alarmingly complicated nature, with heavy protective duties. In 1859, Canada increased her tariff to about 20% on most of the imported manufactures, and though this was lowered in 1868, it was raised again in 1879. Taxes of 15% to 25% were imposed on yarn; tissues were taxed as high as 30% and iron manufactures 35%; and since then the tariffs have certainly not been lowered.

40. Result of Protectionist Tariffs. What has been the result of these foolish measures? Naturally, the imports of all goods from Great Britain liable to duty have very seriously decreased, but goods admitted free of duty have increased. And although the protectionist policy is still approved of by the majority of the Canadian people, the restrictions imposed by it are severely felt by the agricultural districts. As Great Britain affords a very good market for Canadian timber, grain, cattle, meat, and agricultural produce generally, it is obviously foolish to injure the natural trade between these two countries; for, since Canadian exports are paid for by British manufactures, it is clearly a hindrance to trade if this payment in manufactures is hampered by oppressive duties. No wonder the agriculturists of Canada do not approve of these restrictions, whatever the rest of the population may think.

41. Tariffs in Australasia. Turning now to our Australian colonies, we find that up to 1860 hardly any duties were imposed upon imports, while Tasmania and New Zealand had very low ones. But by 1870, a system of higher duties was introduced, Victoria levying a duty of 10% on imports, but the other colonies imposing less; and since then the tariffs have become still higher. Victorian duties average

quite 20%, as also do those of New Zealand; Tasmanian duties range from 12½% to 20%, and Queensland has 15% on clothes and yarns. It is thus clear that our Australasian colonies are becoming more and more protective in their policy, and are justifying their procedure on protectionist principles. The Cape Colony has also raised its duties; and only India and New South Wales have a policy of freedom. The results of the enlightened policy of India are to be seen in the vast growth of Indian trade in recent years, both exports and imports having very nearly been *doubled* in the course of the last fifteen years. New South Wales, also, has had no reason to regret its free trade principles, for it has progressed (as Sir T. H. Farrer tells us) in every respect more rapidly than its protectionist rival, Victoria, and its exports have increased more than those of any of the surrounding colonies.

42. Nature of Colonial Trade. Fortunately, even for those colonies which are protectionist, there are certain circumstances which prevent their protectionist policy from doing as much harm as might possibly be the case in other communities. The nature of their trade is such that there must be—at least for many years to come—a steady volume of trade always going on between them and Great Britain. The vast majority of their exports consist of raw materials, such as wool from Victoria, mohair from the Cape, or of food products, such as the corn and meat of New Zealand; and for these articles Great Britain affords the largest, safest, and most steady market. Moreover, in spite of all that colonial manufacturers can yet do, the colonies require a large quantity of manufactured articles, especially clothing and machinery; and these can be supplied from Great Britain. There is thus a natural exchange of raw materials

and food for manufactures, and this natural exchange no protective laws can ever entirely prevent, although they may do much to hinder and hamper it in a totally unnecessary manner. If the protective measures adopted by the colonies ever became so severe as to affect very seriously the volume of British goods imported into their markets, the colonies would soon begin to discover that their own exports would fall off to a marked extent, for Great Britain would be unable to take them unless we were allowed to give our manufactures in exchange, on the guiding principle (already discussed in these pages) that goods must always be ultimately paid for in goods, and that commerce between nations is only barter upon a large and international scale. Hence it is doubtful whether the protective measures of the colonies will ever become so severe as to affect British trade very seriously. In any case, it would be very foolish policy on our part to attempt to retaliate by putting heavy duties upon colonial products.

43. The Tie which Binds the Colonies. For there exists at present, and must continue to exist for many years to come, a tie between England and her colonies, which statesmen and historians may forget, but which the financier and economist cannot fail to perceive. It is not that unreal and flimsy tie of sentiment, which, in spite of all big words and noble rhetoric, has never yet prevented any colony from breaking away from its parent country, as the American colonies did only a century ago, and as the Australian colonies constantly threaten to do in moments of political excitement at the present day. It is not loyalty, or attachment to a central crown, or the consciousness of belonging to a world-wide empire; for

though the Australian colonies may send a detachment of volunteers as a guard of honour to the Queen of England at the opening of the Imperial Institute to-day, that is no guarantee that they will not renounce her already somewhat visionary authority to-morrow. The tie which binds the colonies is not of that nature. The plain fact is that they owe us a great deal of money—money which they have borrowed for various commercial and industrial enterprises, and which is registered and dealt in on the Stock Exchange. The amount of British capital invested in colonial securities is immense, and the interest upon it must be paid. The interest is paid in goods, in the exports of colonial products which arrive at our harbours and docks every day of the year. It will at once be perceived that it would be most unwise of the creditor country, Great Britain, to put any hindrances upon the payment of this interest by attempting in any way to limit the amount of colonial produce which comes to us, by placing heavy duties upon it; or to endanger the prompt and easy payment of such interest by putting unnecessary customs duties upon it on its way into the pockets of British creditors. Hence, even for our own sakes, the plan of taxing colonial products in order to retaliate upon the colonies for their taxation of British manufactures would be very foolish.

44. Colonial and Foreign Trade. A scheme is sometimes proposed, to which we ought in conclusion to give some attention, by which it is sought to unite in one great customs federation the whole of the British empire. It is said that most of our trade is done with our colonies, and that our empire contains within itself all the products and raw materials which are needed for the various

industries carried on within its limits; and that therefore it could do no harm, even upon the sound principles of political economy, to include all our colonies and ourselves into one great federation, which should, by prohibitive duties, shut out all foreign competitors, while the members of this federation should enjoy free trade one with another. In this scheme the value of free trade is acknowledged, and there is something to be said for the fact that, in its political aspects, the plan is decidedly attractive. But when we come to look at it more closely, we find that it rests upon a rather insecure basis. In the first place, the great volume of British trade is *not* with the colonies, but with foreign countries; and secondly, the products of British empire are *not* quite sufficient to supply the needs of our manufacturers.

1. The course of trade for many years past (say from 1875) has shown us that the amount of trade done in exports with foreign countries is some 66% or 68% of the total, while that done with the colonies is only 32% to 34%. That is, the colonies only take about one-third of our exports. "To discourage two-thirds of our trade for the sake of stimulating the other third," says Professor Bastable in his *Commerce of Nations*, "can hardly be prudent."

2. Although it may be granted that the British empire does contain nearly all the necessary economic products within its limits, it does not yet contain them all in sufficient quantity to enable us to cease relying on the "outside world" for a large portion of our food and raw materials. We should be in an awkward predicament without the wheat of America and Russia, or the cattle

and grain of the South American Republics, or the timber of Russia and Scandinavia; and we could not consent to raise the prices of these commodities to our consumers merely in order to please our colonial friends, without expecting considerably more substantial advantages than they are able to offer us. The best thing our colonies could do in their own interest is to create a federation of free trade instead of protection, and thereby to open "the golden gates of trade" in the British empire without further let or hindrance.

For further reading see Bastable's *Commerce of Nations*, ch. xvii; and Thorold Rogers' *Econ. Interpretation of History*, ch. xv.

CHAPTER VII

MONEY AND CREDIT

45. HAVING discussed some of the chief points relating to foreign trade and to commerce between nations, we may now turn our attention more to the political economy of our internal trade, and to those agencies by which it is carried on. We find that all our transactions in commerce are a kind of exchange, and it is evident that the interests of commerce are best served if this exchange is carried on as simply and easily as possible. Money helps us to do this. But it required a great many years of human progress before the use of money became at all common, and it required a great many more years before the best methods of coining and using money became known. For centuries the method of barter was that usually adopted, though to us the disadvantages of that method are now too obvious to need explanation. We have learnt by experience that, in barter, it is very difficult to find the person who wants the exact thing that is offered for exchange and who, at the same time, is willing to give the exact thing required; and also it is very difficult to find two commodities of exactly equal value to exchange one for the other. Hence we see the necessity for some *medium of exchange*, that shall

obviate the difficulties of barter; and this medium of exchange, when once found, will act also as a *measure of value*.

46. Gold and Silver as a Medium of Exchange. Everyone knows that civilised nations have agreed in using the precious metals, gold and silver, as the chief medium of exchange, adding also copper, bronze and nickel as supplementary instruments. It may be, therefore, worth our while to inquire what properties these commodities possess which render them so particularly suitable for the purposes of money. We find that (1) they possess an independent value of their own as metals. They are greatly in request and keenly desired by large numbers of mankind for their own sake as ornaments, and, at the same time, are sufficiently scarce to prevent their becoming too common to be valuable. Then, again, they are also (2) readily divisible into larger or smaller portions or quantities, and are easily carried about, so that they can be transferred from hand to hand in accurate sums and without much trouble. (3) They are also readily cognisable; *i.e.*, their value is at once easily known because they are like in kind, and a given quantity of gold is always equal in value to another given quantity of the same size. This is not the case, however, with precious stones, which people often think might serve as well as money for a medium of exchange, because the value of precious stones is not always easily discovered, except by a skilful jeweller. Diamonds differ very considerably in lustre and colour, and two diamonds of equal size may be of very different values. In all these points it will be found that the precious metals excel all other commodities for the purpose for which they are used, namely, as a medium of exchange and a measure of value.

47. Deferred Payments. But one other point remains to be noticed. A measure of value must, if possible, be such that it retains its value unaltered for a long period of time, in order that it may be used as a standard for deferred payments. Many payments for commodities bought are made months after the actual purchase, and it would cause great confusion if the authorised medium of exchange were to have one value in January, and then to fall very considerably in value before June. Hence, the commodities used for money must be (4) durable, and possess a steady and non-fluctuating value. On the whole, gold and silver answer these requirements, though even these metals do not do so exactly, since the value of silver has fluctuated and decreased very considerably in the last twenty years, and that of gold has also varied (though much more slowly) in historical times.

48. Coined Money must be Worth its Nominal Value. Of all these requirements and properties which money ought to possess, perhaps the two most important are that it should be easily carried about, and that its value should at once be known. To insure this, civilised nations have *coined* gold and silver and other metals into coins of suitable size, and of a readily-perceived value. And here it should be noted that to make a coin suitable for exchange, it must actually be of the value which it professes to be, or very near it. A sovereign must be worth a pound. It is no use issuing a coin nominally worth a pound, but in reality only worth fifteen shillings. The reason of this is that money, because it is coined, does not cease to be a commodity, but is subject to exactly the same laws that govern the exchange of other commodities, and depends for its value upon the same condi-

tions of supply and demand. Moreover, there is a danger involved in the issue of any money whose value as coin does not actually correspond (or nearly so) to its own independent value as a commodity: because, if its value as currency is much higher than its value as a commodity, there is a great temptation either to the government to issue base coin (as Henry VIII. did), or to thieves to issue false coin. This temptation becomes greatest in the case of a paper currency, and the fallacy, that the issuing of a large number of banknotes without any reserve of bullion to back them up creates wealth, is by no means even yet extinct. In the case of our gold coinage in Great Britain, this danger is, as far as possible, minimised by making the coins very difficult to imitate, and of very nearly the exact value they profess to be. But our silver and copper coins are only *token* money, for a shilling is not worth in metal the twentieth part of a sovereign, nor is a penny piece equal to $\frac{1}{240}$ of £1. However, as these coins are only legal tender for very limited amounts, this does not cause serious inconvenience.

49. Base Money and Gresham's Law. But it must be borne in mind that if our standard gold coinage were to have a much smaller value as coin than it has as bullion—or, in other words, if it were to approximate to the condition of these *token* coins—we should find ourselves in considerable difficulties. This was discovered in the period when kings like Henry VIII. and statesmen like the protector Somerset, thought they could issue coins which possessed only nominally the value they were supposed to represent, without doing any harm to the trade of their country. Prices rose considerably; coin was melted down and disposed of for the purposes of orna-

ment; and what good coins there were were gradually sent out of the country to pay foreign debtors, while the debased coins remained. In fact, it was found then, and has been noticed also since, that if there are two kinds of money circulating in a country, one good and the other debased, the debased or depreciated coins or paper money will practically drive out the better. In America for instance, when paper dollars, or "greenbacks" were very much depreciated, it was found that there was a tendency for gold to leave the country. The operation of this tendency is known as "Gresham's law," because it was first noted by Sir Thomas Gresham, in the sixteenth century.

50. Paper Money. It is found by civilised nations desirable to use as small a quantity of the precious metals as possible for the purposes of exchange, because the wealth existing in the form of coined money is necessarily inactive, being locked up, so to speak, in the metal coins. It is more economical to supplement the precious metals by the use of paper money, printed pieces of paper being issued and stamped with the value which they are intended to represent. The cost of issuing these notes is trifling compared with that of extracting, refining, and coining gold and silver, and thus a great saving is effected. But this paper money must be readily *convertible* into gold; and experience has taught financiers and bankers that a paper currency will only be accepted and used as money on the understanding that it may be changed into metallic coin at the pleasure of the person who holds it. It is constantly the case that the actual amount of paper money in circulation is considerably in excess of the gold which is known to be kept in reserve to meet it, though "in a

well-ordered community (Thorold Rogers remarks), it never nearly equals the amounts of gold which is actually circulating." This, however, refers only to bank notes. But, "if one includes in the paper currency all cheques and bills and other instruments of credit, mature and immature, then the paper put into circulation in a commercial country is greatly in excess of the gold which is reputed to cover it."

51. Why Use Metallic Money At All? But it is sometimes thought that, since so great a mass of business is done in commercial countries with the use of a comparatively small amount of metallic money, we could, if we chose, do without it altogether, and issue, instead of notes convertible into gold, notes based upon some safe security, such as consols, or even (as was once attempted by the Land Bank of the 14th century) upon the security of land. "Why not issue notes as the security of the consols or the land of the country?" people sometimes have asked. The security is sound, and the consols or the land bears a revenue, while gold yields none, but is simply "barren money" as long as it is only kept locked up in reserve. Why not then use something else as the basis of our paper currency? The answer to this—and it is quite a sufficient one—is simply that people will take and circulate bank notes because, and only because, they know they can get gold for them. You can always get five golden sovereigns for a five-pound Bank of England note, if you really want them. But if, instead of five sovereigns (which are accepted by everybody, and even by foreign nations, because of their value as gold) you are offered instead £5 worth of consols or land, when you happen for some purpose or other to want gold, then what you receive is

no use to you till you have found someone who will buy it of you, and give you five sovereigns in exchange for it. That is to say, you have to sell again what you have received, and thus undertake a second transaction, which is always troublesome and a waste of time and, on certain occasions, might involve some risk. Hence it is simpler, better, safer and cheaper to use gold as the basis of a paper currency: and it is always wise, both for Government and bankers, to take care that the notes they issue are readily and easily convertible into gold when the holders require it.

52. Credit Money. We have now seen that, with due care, a paper currency may safely be used to supplement the precious metals in conducting the business of commercial communities, but we next shall see that a great saving is made by using what are called *instruments of credit* instead of legal money, whether paper or metallic. And, as a matter of fact, most payments are made, and most commercial and financial transactions are concluded, with but little use of legal money. Goods frequently change hands without any money passing between buyer and seller, bills of exchange and cheques being used instead. Such trading rests really upon *credit*, and the documents used therein, such as bills, cheques and promissory notes, have rightly been called by economists, "credit money." The immense use made of this credit money by the commercial community may be seen from the statement (quoted by E. C. K. Gonner) that of payments made into one particular bank, no less than 96·8 per cent. were made by bills, cheques, and similar instruments, and only 3·2 per cent. by means of legal money, either paper or metallic, in the shape of bank notes or coins.

Consult W. S. Jevon's *Money*; Thorold Rogers on "Metallic Currencies," and "Paper Currencies" in his *Economical Interpretation of History*; Gonner's *Political Economy*; and Adam Smith's *Wealth of Nations*, bk. I. ch. v. and bk. II. ch. ii.

CHAPTER VIII

CREDIT AND BANKING

53. WE have alluded to the fact that instruments of credit were largely used to supplement metallic money among commercial nations, and that, in fact, only a trifling percentage of the transactions of commerce involved the exchange of legal money, such as sovereigns and bank-notes. The great advantages of this use of commercial instruments of credit—the most important of which are bills of exchange, cheques, and promissory notes—are that they enable the mercantile community to dispense with a large amount of metallic coin, and thus save labour; and also that they render it unnecessary for traders to carry large quantities of coin about with them or to transmit it from one place to another in order to pay their debts. We saw that this was especially the case with business transactions between debtors and creditors residing in different countries, who could thus avoid much trouble, risk, and expense by remitting or drawing bills of exchange.

54. The Nature of Instruments of Credit. We must not, however, fall into the error (which some people have held) that “credit money” is just as good as metallic money,

or that, by using credit money, we could dispense with the precious metals altogether, for there is a vast difference between them. The precious metals are accepted in payment solely because of their own intrinsic value, not because of the good or bad credit of the person who tenders them in discharge of his debt. But instruments of credit, such as bills of exchange, derive their value (as their name implies) solely from the good credit of him who offers them; and even then only record a *promise* to pay, and are not the actual payment itself. They merely contain a promise, and are only considered valuable when it is known for certain that the person who promises will duly keep that promise. A very slight doubt as to the good faith of the promiser will very seriously lower the value of his bill or promise in the open market. Thus, a bill for nominally £100 may, if the credit of the acceptor is sound, fetch very nearly its full nominal value when offered for sale (of course allowing for discount); whereas, if the acceptor's credit is dubious, it may fetch only £75, or even less. Thus it will be at once perceived that credit money cannot be a measure of value, such as legal money is, because all that it does is to promise the payment of a certain amount of legal money already existing.

55. The Use and Danger of Credit. But, bearing these facts in mind, we can still readily perceive that the use of credit money offers enormous advantages to a commercial community. It assists the circulation of capital and renders it more mobile and transferable. If money is required specially in one part of the country or in some particular branch of industry, bills can be drawn by those who reside in that district or who are engaged in that industry, and capital can thus be transferred to the particular point

where it is most desired. Again, credit assists people in gaining temporary loans of capital, because those who think they see a sound and good opportunity for employing more capital than they at present possess can obtain possession of it by issuing promises to repay the loan at a future date, when they have used it in their business and (as they hope) have made a profit upon it. Many a comparatively poor man has started in business in this way, borrowing money sometimes solely on his personal credit, and has been able to repay with ease those who lent him money to start with. Others, again, although procuring sums of money on credit, have not been so successful as they hoped, and have been unable afterwards to meet the obligations which they have previously incurred. And here the danger of this use of credit becomes obvious. After all, the whole affair is a speculation; and if the speculation does not result successfully disaster follows both to the speculator, and to those who, relying on his credit, have lent him money. Not only does this disaster affect the speculator and his particular creditors, but it makes the creditors of other people also feel uneasy, frequently causing them to press their debtors for payment, and thus cause further distress by their claim, until at length a general spirit of distrust pervades the whole of the commercial community and a widespread panic may be the result. Such panics constantly occur on a larger or a smaller scale in all large business circles; and, as long as our system of commerce is based upon credit to the extent that it is at present, these panics must be expected. But the undoubted advantages of the use of credit are sufficient to outweigh even these drawbacks.

56. Banking. Now the whole system of credit transac-

tions is made possible and workable by the machinery of banking which underlies it. Credit and banking go hand in hand, and have done so ever since the earliest days of civilised history. Tyre and Sidon, Babylon and Bagdad, Rome, Athens, and Corinth had their bankers, bill-brokers, and bills of exchange just as London and Paris have to-day, though on a smaller scale. The beginnings of the various modern European banks were, however, not of a perfectly uniform character, for the various requirements and different customs of different nations rendered their origins diverse. Banking has various branches, and the first banks generally took up only one or two of the general functions ascribed to the more complete institutions of modern times. Of these functions we must now speak.

57. The Functions of Banks. One of the most important uses of a bank is to avoid the necessity for passing legal money from hand to hand by the simple operation of "cancelling indebtedness." If two people keep their money in one bank it is obviously more simple for them to ask their banker to subtract (say) £50 from A's account and add it on to B's, than for A to take the trouble to draw out £50 in notes and give them to B, and for B then to pay them in again. And what can be done between two customers of one bank can also be done, by means of the "clearing house" system, between customers of various banks all over the country, and even between those in foreign countries. This function of cancelling indebtedness, which saves so much trouble in passing money from hand to hand, is performed by the bank keeping "current accounts" for its customers. The bank receives money from its client and pays it out, either to himself or on his

behalf to others, as he may require. Another very important function of a bank is to receive money on deposit from its clients and allow them interest on it, such deposit being repayable either on demand or after due notice, while the bank uses the deposits thus made for its own business purposes. Then, again, an even more important function is to economise the use of metallic money by the issue of bank notes; but this function is so important that it requires a special paragraph to itself. Other uses that a bank fulfils are to discount bills for customers and lend them money. The chief functions of a bank may be summed up shortly thus:—

“The business of a bank consists in buying, selling, lending, and exchanging money in its different shapes and forms.” The transactions by which it does so are: (1) keeping current accounts for customers; (2) receiving deposits, with or without interest; (3) discounting bills of exchange; (4) advancing money to customers; (5) transacting business for the account of third parties; (6) negotiating bills of exchange; (7) issuing notes. “Both private banks and joint-stock banks usually do all, or nearly all, such business. Some, however, are particularly devoted to one or two branches, and act, therefore, specially as banks of deposit, savings banks, discount banks,” and so on.

58. On Issuing Notes. Of these various functions, that of issuing notes, though possibly not the most important or lucrative, is the one upon which the greatest economic misapprehensions seem to prevail, and to which we must, therefore, devote a few words of comment. We have already seen that notes are issued to supplement and to save the metallic currency, and most banks issue notes with this purpose. Now, it is sometimes thought that

because banks have the power of issuing these notes, they can practically coin money, and so by supplying an excess of money give rise to rash speculation. But this, is a confusion between money (whether paper or metallic) and credit. A bank would gain nothing by such a procedure, for if the notes were in excess of what was actually needed by the commercial community for the purpose of carrying on its business, they would inevitably come back to the bank that issued them. "No power can make people take and circulate more money than they want" as a medium of exchange. But at the same time bankers should not be allowed to circulate notes just as they please. For reasons which we have already explained, issues of notes must always have money as their basis, or at least be based upon safe securities that can be converted into money with but little delay. We cannot do better than quote Thorold Rogers upon this point, namely, as to how a bank ought to regulate its issue of notes. "Suppose that a bank has liabilities in the shape of customers' balances and notes to the extent of a million sterling. It should have one third of its liabilities ready at hand, either in the shape of money, of Bank of England notes, or of deposits in the Bank of England similar to those of its customers, or at call. It may have another third in Government stocks on which it can borrow, if it needs, or sell. It may have advanced the residue on commercial bills which, in a strait, are also negotiable, though not so speedily or safely as the securities referred to. It ought, besides, to have its own property and its own reserves." This is what a bank might do with wisdom and safety. "But there are occasions when it might just as wisely vary the distribution of its assets, and in the interpretation of these occasions the practical judgment of the banker re-

sides." It will thus be seen that great care is necessary in the issuing of notes.

59. Discounting and Loans. Similar care is needed by bankers in the two great credit operations of discounting bills and making loans. By granting credit indiscreetly they may, to their own disadvantage and that of the public in general, greatly assist rash and foolish speculation, and occasionally great losses are incurred in this way and considerable panic arises, as in the famous Baring crisis of 1890. In discounting bills for a firm, also, a banker must be very cautious, and always keep himself accurately informed as to the business standing and affairs of those firms who deal with him. It often happens that previously respectable firms of good credit, when they are in difficulties owing to rash speculations, have recourse to fictitious bills, which they get discounted at their bank for cash, and with the money thus obtained try to keep up their credit as long as possible, only to fail more disastrously in the end.

60. The Use of Banking. We may here, in conclusion, quote the admirable words of the great economist and statesman, Adam Smith, as to the economic principle upon which banking is based. "It is not," he says, "by augmenting the capital of the country but by rendering a greater part of that capital active and productive than would otherwise be so, that the most judicious operations of banking can increase the industry of the country. That part of his capital which a dealer is compelled to keep by him unemployed and in ready money for answering occasional demands is so much dead stock, which, so long as it remains in this situation produces nothing either

to him or his country. The judicious operations of banking enable him to convert this dead stock into active and productive stock, which produces something both to himself and his country."

See, further, Adam Smith's *Wealth of Nations*, book II. ch. ii.; Rogers' *Economic Interpretation of History*, ch. x., on Paper Currencies; Gonner's *Political Economy*; and a convenient summary of the operations of Banking is given in Gambaro's *Lessons in Commerce*, ch. xi.

CHAPTER IX

RINGS, TRUSTS, OR SYNDICATES

THE discussion upon money and credit has led us naturally to think of capital and capitalists; not that capital consists solely of money or of credit, for it does not, but because the word "capitalist" has come to mean, in popular phraseology, a person who possesses a good deal of both. As a matter of fact, "capital" means and includes many different things.

61. Definition of Capital. It may be well, therefore, even at the risk of a slight digression, to define what we mean when we use this word. Adam Smith said that a person's capital is that part of his stock from which he expects to derive an income; and Professor Marshall words this slightly differently by saying that "a person's capital is that portion of his wealth by which he earns his livelihood. Its most conspicuous elements are such things as the factory and business-plant of a manufacturer, *i.e.*, his machinery, his raw material, any food, clothing, or employés, and the goodwill of his business. These are things from which their owner expects to derive an income in the special form of money; and this may be called his *trade capital*." There are also other kinds of capital, such as social and

personal qualifications, and we may also divide capital into circulating and fixed; but the trade capital is the most obvious and prominent of them; just as the money income is the most obvious and prominent thing, though not the only thing, that comes to a man from the possession and use of capital.

62. Combinations of Capital. With these few remarks upon the nature of capital we may go on to speak of the attempts made by those who hold a large quantity of capital in the form of money, to increase their capital by formation and promotion of what are known as rings, trusts, or syndicates, *i.e.*, combinations of capitalists into associations of greater or smaller size. We must, however, notice at the outset that it is exceedingly difficult, for very obvious reasons, to obtain trustworthy information about their action. This is the case partly because they are not seen in their most advanced form in this country and partly also because information is, in any case, not always very readily supplied by their promoters, for very natural reasons. But still these great combinations of capital and capitalists form an exceedingly important feature in our present industrial system, and must certainly be taken into account in the study of actual economics. In England, though they are no new thing—a case having reference to the action of a ring in the fruit market having been tried before Lord Eldon in 1807—they came into special prominence a few years before the great commercial crisis of 1890; and it was noticed that a special feature of the period just before the crisis, was the establishment of trusts, combinations, corners, and the promotion of companies on lines similar to those long since familiar to the American business world. We should, however, notice in

passing that the word "trust" does not mean quite the same thing here as it does in the United States. Here, trusts are generally investment companies, which undertake investments for people on the assumption that the company is better able to average the risks of investors than the latter can do for themselves. In America they are practically the same thing as a syndicate or ring.

63. The Operations of Syndicates. Now, all these combinations of capitalists are formed in order to influence the prices of some particular commodity in the market in such a way as to bring in some extra profit to the combining parties. They are, in fact, attempts to establish a monopoly of some article upon a larger or smaller scale; that is, to gain control of its production and distribution in such a way as to place the whole trade done in that article practically in the hands of some few interested individuals. In the present complicated state of the market of the world, and in view of the fact that commerce is so largely international in its character, such operations must be carried on upon an international scale, and cannot as a rule, from their very nature, be confined to one or two local markets. It would be impossible, for instance, for a few Canadian timber merchants to gain a complete monopoly of the timber trade in the English market, and to raise prices to any very considerable extent; for, if they tried to do this, the competition of the timber merchants of Scandinavia, Russia, and Germany would be sufficient to break up the intended monopoly. In the same way, since all raw materials—such as cotton, metals, or wool—are bought and sold in view of the prices ruling not only in any one particular market, but in view of the markets of the world as a whole, it is practically impossible for

any group of men to buy up and control all or most of the stocks of any particular commodity, unless they take into account the supply of it not only in their own local market but in all parts of the globe as well. They may seek to raise the price for their own benefit by temporarily reducing the supply; but in that case they must be quite sure that they *can* reduce it without any outside competitor coming forward with some other source of supply. In such a case their combination is bound to fail; and, as a matter of fact, combinations have several times recently failed from this neglect (or perhaps impossibility) of taking all sources of supply into account. Such was really the cause of the failure of the great Copper Syndicate of 1887-8, the story of which is certainly interesting.

64. The Copper Syndicate. The "great copper ring" was formed in December, 1887. Its object was to gain control of the market in copper and tin, and it was suggested by the exceedingly low price of copper at that time, it being below £40 a ton. At this opportune moment therefore a ring of Parisian capitalists known as the Société des Métaux bought up all the supplies of copper that they could obtain, and succeeded in holding, it is said, a year's supply. The ring also bought up shares in the chief copper mines with the view of limiting production in their official capacity as shareholders. At the time of their collapse in 1889 they had agreements with no less than twenty-seven mining companies to take their annual output of copper at prices varying from £60 to £70 a ton. The immediate result of the operations of this Société or syndicate was a great scarcity of copper and tin, with consequent high prices for these commodities. Tin rose from £130 to £166 per ton and copper from £39 to £85

per ton, which was, of course, an enormous increase. This effect was produced by the Société preventing the output of copper on the scale previously carried on. Their control of the market lasted for nearly a year and a half, and high prices ruled all the time, the average for copper being £80 per ton.

65. Its Collapse. Such a price, however, had two important results which had not been sufficiently foreseen by the syndicate. It very seriously curtailed the consumption and use of the metals in question, since consumers would not pay the high prices demanded if they could avoid so doing, but preferred to use up all the old copper held in stock by themselves or others, only purchasing the smallest possible fresh quantities. At the same time the output began, after a while, to increase, since mines not controlled by the syndicate endeavoured to produce as much copper as they could, in order to gain the benefit of the high prices then ruling. Even old mines were re-opened for a time. But these two unforeseen results of the action of the syndicate—viz, the diminution in consumption and increase in output—so increased the quantity of metal in the market that the Société discovered, when it was too late, that in order to keep up the price to the artificial figure of £70 per ton, it would be necessary to buy up all the copper mines in the world and then stop the output altogether from half of them while also limiting the product of the others. Then came a collapse. At the time of its fall (in March, 1889) the Société held not less than 120,000 tons of copper while the demand for consumption and use had only been 5,000 tons per month for some time previously. Meanwhile, constantly increasing supplies came in from the mines outside the ring, the visible supply

having been increased by 20,000 tons between December, 1888 and March, 1889. The ring could hold out no longer, and the price of copper came down with a rush from £78 in February to £39 5s. at the end of March. The crisis that followed brought down one of the largest French credit establishments, the Comptoir d'Escompte, and caused widespread disaster in French financial circles.

66. The Standard Oil Trust. But, under favourable conditions, syndicates can often succeed in controlling the market in any one article of commerce very effectually. This has been the case with the Standard Oil Trust of the United States. This syndicate was formed in January, 1882, by the amalgamation of some forty incorporated companies and a few individuals of note in the various oil-producing States of America. The original capital was fixed at 70,000,000 dollars, and on this an average dividend of $13\frac{1}{2}$ per cent, has been earned, while the capital has been increased to 90,000,000 dollars by the absorption of other oil companies since the formation of the trust. In this case, however, the price of oil has not been increased, but on the contrary has declined, partly owing to the fact that the processes in the manipulation of crude oil and the means of transit have become less costly. The trust claims that it has done an important service to the public by thus economising the costs of production and transport. But its system of transport has caused great discontent among other oil companies and traders, since it is said that on some American railways a discrimination of rates is made in favour of the trust, and companies belonging to the trust are also allowed to use "tank-cars" for conveying their oil at a lower freight than other traders who have to convey their oil in barrels.

This is said to be due to some secret understanding entered into with the directors of certain railway companies. The trust has also laid down an extensive system of oil pipes, by which oil is conveyed like water in pipes that are capable of conveying 25,000 barrels per day into the city of New York. Owing to these advantages they can afford to sell oil at a lower price than any of their competitors; but the competition of Russian oil from Baku also tends to prevent the trust from having such a complete monopoly of the oil trade as to be able to keep up its own price.

67. The Economics of Syndicates. It will be seen, however, from these examples that the *raison d'être* of a syndicate or ring is chiefly to get control of the market in some article by means of combinations of capital on a large scale. They aim at obtaining a monopoly of trade in some particular product, and then, by limiting the supply, they try to raise the price in order to reap a handsome profit. This profit must come out of the pocket of the average consumer. The only protection from the action of capitalists who act in this way is to be found in outside competition; and as a rule, owing to the international and widespread character of modern commerce, no combination can entirely control the market unless its operations are upon so vast a scale as to be as international as the commerce it seeks to regulate. There is, however, an increasing tendency for the operations of capitalists to become more and more international in character, and for capital to combine into large companies and syndicates rather than to remain under the control of one individual; and, provided these combinations do not become so powerful as to dominate the market entirely, their action

may be in some cases beneficial or, at any rate, comparatively harmless.

There is no book upon this subject as yet published, but Mr. J. S. Jeans has now one in the press (Methuen and Co., London, 2/6); and there is a good article on "Rings and Syndicates" in the *Co-operative Annual* for 1890. See also Hyndman's *Commercial Crises*, pp. 146-151.

CHAPTER X

LABOUR AND CAPITAL

68. HAVING glanced at questions in which money is concerned, and having noticed modern combinations of capitalists, it is now time to turn our attention to the various relations of capital and labour. In the political economy of what is, even yet, by no means a bygone generation, capital was regarded as the sun and centre of the whole industrial system, and as that on which all other things depended. But now a tendency is becoming more prevalent to place labour in the position which capital formerly occupied in the system of economic theory; and some would even go so far as to dethrone capital altogether and make everything rest upon labour as the basis. And it is certainly right that due importance should be given to the functions of labour in the industrial system, since in the past there has been a regrettable tendency to underrate them. In the present state of industry in highly civilised countries like our own, we can hardly conceive what would happen if all capital was suddenly withdrawn from industry, and labour was left entirely to its own unaided resources. But in the initial stages of industry it is labour that has to create capital, and not capital that creates labour. Capital, using the word in

its widest sense, is simply stored-up labour or the stored-up *results* of labour, or as has been well expressed, "wealth set apart for the production of more wealth." We might say that it is wealth which has been acquired, not for the sake of merely enjoying it (as a man might acquire a beautiful house or picture), but with the distinct object of using it to gain more wealth thereby. A man may, by working, acquire a hundred pounds, and he may either spend it in amusement or pleasure, or he may apply it (as, *e.g.*, by starting a new business) in such a way as to gain fifty pounds more. In this second case he is said to be using it as capital for the acquisition of further wealth.

69. Capital and Interest. The advantages of thus acquiring capital are obvious. A man without capital is simply a naked savage. But as soon as he has applied his labour to the making of a bow and arrow in order to shoot game in the future, or to making a canoe in order to go fishing, he has become a capitalist or possessor of wealth devoted to the purpose of producing more wealth. For he has applied his labour, not to making a boat merely for the pleasure of so doing, but in order that he may use it for a definite industrial object, and that boat represents so many hours' or days' stored-up labour. The capitalist savage in possession of a canoe is already superior to his brother who has not got one; and if that brother savage wishes to go fishing on a lake, he would either have to make another canoe himself or else borrow the one that is already made. If he borrowed it, he might perhaps offer the owner a couple of fish from those that he caught, as payment for the use of the canoe for that occasion. Then the canoe would become an interest-bearing investment to the original owner, and he might,

if he were so minded, rest in idleness all his days and live upon the fish caught by his fellow savages and given in payment for the use of his canoe. That is what the modern capitalist, considered purely as a capitalist, generally does. Of course, in the primitive state of which we are speaking, the other savages are perfectly at liberty to make canoes for themselves wherein to go fishing, and need not have recourse to the maker of the first one. So too, theoretically, in the present day, any person might devote his energies to acquiring £100 for himself to use, rather than pay another person for the use or loan of it. But in the modern world of industry such a process would take so long that it would hardly be worth while; and therefore people prefer to pay a capitalist a certain sum for the use of his money rather than to acquire it first themselves. Many people cry out against the payment of interest to capitalists, but the cry is unreasonable so long as the interest is moderate; for the answer of the capitalist is simply this: "If you do not want to use my capital, go and acquire some for yourself." And as a matter of fact, if capitalists demanded so high an interest that it paid people better to wait some time longer till they had acquired enough capital for themselves, the borrowing public would no longer borrow. Nevertheless, a capitalist, without going so far as this, may demand what is really an extortionate sum for the use of his capital, though at the present time so many capitalists have capital to lend that their competition among themselves keeps down the rate of interest to a moderate sum.

70. Capitalists, Employers, and Profits. So far we have been speaking about the capitalist purely as such. But many people are both capitalists and employers, and yet

are spoken of under the term "capitalists," and are reproached because they seem to gain an unduly high income from the possession of capital. Hence it becomes necessary to distinguish between the interest of the capitalist and the profits of an employer. We must regard the employer in two distinct lights, and divide his income into two distinct portions. One portion is what he gets as interest upon the capital which he has invested in his business, including payment for use and insurance against risk; and the second is what he gets as profits. This profit might be more correctly spoken of (as Professor Marshall speaks of it) as earnings of management, which represent the wages paid to the employer for his general superintendence of the business. This is very clearly seen in the case of a manager of a company. The company provides the capital and pays the manager a fixed income for his services; and the company's profits are divided accordingly, one part going to the shareholders as interest on their capital and the other being paid to the manager as his salary. When a capitalist is himself his own manager, he naturally draws both interest and wages of superintendence, and in some branches of business the wages of superintendence are practically unlimited. This is the case especially in instances like financial operations and speculation, where the amount of profits depends partly upon the business foresight and special mental qualifications of the operator, and partly on the acquisition of some special knowledge which may or may not be a matter of chance. In some cases it can hardly be denied that the profits on capital are excessive, and can be accounted for neither by interest nor earnings of superintendence, but depend upon some happy chain of circumstances that has put special advantages in the way of the speculator.

71. Wages. Strictly and theoretically speaking, however, the income derived from capital is summed up in the term interest; and though interest varies in proportion to the risk or security of an investment, it tends on the whole towards a moderate level. Everything else is in one form or another *wages*. We have spoken of the wages of superintendence, which are more familiarly known as a manager's salary, and we may now glance at what is termed "the wages of labour," a term which is generally applied only to the earnings of the working classes. The wages of labour are not the total earnings of labour by any means. They are only a certain portion of the earnings of labour, which portion is applied to the direct payment of the worker. A clerk who earns for himself £1 a week must do work which in itself is worth a good deal more, otherwise he would not be employed. The workman who tills the land must produce a good deal more than 10/- worth of vegetables per week in order to get 10/- a week as wages; for many things have to be provided out of the gross earnings of labour. Rent, interest, and profits have all to be paid before the labourer's share is reached, and therefore his share does not represent the full earnings of his work. Nevertheless there is, in a theoretically perfect state, no unfairness in this. Before a clerk can earn £1 a week by writing letters and casting up ledgers, there must be a building for him to work in, and for this rent has to be paid. There must be a manager to direct the business which gives him his employment, and this manager must have his salary. Generally, there must be a capitalist who provides capital to start and keep up the business, and the capitalist must have interest. What the clerk gets in the end is the total earnings of his labour *minus* rent, interest, and profits. If his £1 is increased, one of these

must be diminished. In many cases they perhaps could be diminished with no hardship to their recipients, but in a perfect state each would get his fair share. No doubt in this world they do not, but that does not alter the economics of the transaction.

72. The Nature of Profits and Wages Identical. The net product of the gross earnings which the worker—whether clerk, mechanic, or agricultural labourer—should receive, ought to include three items, just as profits include interest, earnings of management, and payment for risk. They should contain the interest due to the capital invested in a labourer's education and training, which is often greater than is commonly supposed; they should provide for the element of risk, which, in the case of a person receiving wages or salary, means not only sickness but also the inevitable wear and tear and final extinction of human life; and also finally include the remuneration for work actually done. In fact, as Mr. G. Holyoake once remarked, there are two capitalists in society, "the man who has money and the man who has labour. Both kinds of capital are indispensable before profit can exist. Wages are only a trade charge, like that of fixed stock and material. Capital renders labour productive, but does not create profit; it is industry of brain or hand that transmutes capital into profit." Hence we see that the wages of labour and the profits of capital are in their essence identical; that the capitalist, if he uses his brain, is as much a wage-earner as a labourer, and is in fact a "working-man"; and that a labourer is in a sense also a capitalist, even if he has no money, in virtue of the time and training spent upon making him fit for the special work which he has to do. Thorold Rogers has well remarked

that "the wages of the employer and the workman are generically identical and only specifically different."

73. Low Wages. This theory serves to explain, more clearly than any other presentation of wages and capital, the low wages which prevail in certain cases both of skilled and unskilled labour. Just as a capitalist may not get a fair profit on his capital, so a workman may not get a fair wage. Most people will concede that £1 per week is not an adequate return for the capital spent in rearing and educating a clerk to a fairly high standard of educational acquirement. But we see in the money market that, when capital is plentiful, the interest on it invariably falls, and so, too, in the case of a clerk. Clerks, and the capital which their training implies, are so plentiful that the interest offered for the loan of it is necessarily very small. When an employer has many men coming to him as clerks and offering him their services (which include the results of their previous training) he naturally takes the one who, other things being equal, will lend his services for the least remuneration, just as he would take that capital which is offered to him at the lowest interest per annum. The only remedy for low wages is either to reduce the number of those offering these low-priced services, which can be done by educating people for other less crowded employments; or to reduce the profits of the capitalist, and thus leave a larger share of the total product of labour to the wage-earners. As the latter course is, for any individual wage-earner, practically impossible, the former seems the only one left open, unless wage-earners combine for mutual support. But even then it is dangerous to industry to interfere unduly with the profits of capital, for capital must be remunerated as well

as labour, and if it is withdrawn from industry, the whole industrial system is seriously deranged.

74. Does Capital Advance Wages? At the same time mistaken notions are often held as to the uses of capital in industry. It is said, for instance, that an employer "advances" wages to those whom he employs, while as a matter of fact (as Cannan's *Political Economy* points out) it is the exception and not the rule for wages to be paid in advance. Many salaries, which are only wages under another name, are always paid quarterly or half-yearly, when the recipient has already "advanced" three or six months' work. In many cases (*e.g.*, in daily papers) the commodity which an employer sells is paid for some time before the workman receives anything. What generally happens is not that the employer "advances" wages, but agrees *beforehand* to pay a certain sum when the work is done. But, unfortunately, we have no further space in which to continue this discussion.

For further reading, see Thorold Rogers' *Econ. Interpretation of History*, ch. i. pp. 19-22; E. Cannan's *Political Economy*, sec. viii.; and Professor Marshall's *Economics of Industry*, book II., ch. iv. and v.

CHAPTER XI

TRADE UNIONS AND HOURS OF LABOUR

75. WE have in a previous chapter referred to the combinations of capitalists in commerce which are known under the various names of rings, trusts, syndicates, or corners. We have seen that their effects upon trade were often very important and far-reaching, though not always beneficial; and now we turn to another group of combinations—those of the working classes. Having very little money-capital to put into any combination, it becomes necessary for working men, if they wish to cause any change in the course of industry and trade, to combine in a personal manner, and to seek to gain power, not by the aggregation of large masses of capital into a few hands, but by the collection of many working class units into one great body. This is effected by means of a Trade Union—that is a combination of working men of some particular trade in order to promote the welfare of those working in it. It is obvious that there are many points, both in respect to payment for work done and in the general conditions of labour, in which a workman, standing singly, is not able to make the best terms for himself with an employer. For one thing, the workman has, as a rule, to take just what is offered him, or starve, because he cannot afford to wait

till circumstances give rise to better terms for him. An employer, on the other hand, who has command of a sufficient quantity of capital, can very often afford to wait for some considerable time, before engaging labour at a given price, if he thinks that by so waiting he will ultimately have to give lower terms. The employer and the workman stand, in some respects, in the position of buyer and seller; and the antagonism of interest between buyer and seller is as invariable as it is immemorial. The employer wishes to buy labour, and the employé wishes to sell it. Both naturally wish to get the best of the bargain; and though, as in all bargains, there must (at least theoretically), be a mutual advantage, there still exists some antagonism of interests as regards the exact terms upon which this mutual advantage may be reached. Here it is that the usefulness of the combinations of labour called Trade Unions appears. They often, by the mere force of numbers or by the amount of capital raised in the form of comparatively small subscriptions from their members, enable working-men to stand out for better terms from an employer than he would naturally be disposed to give to a helpless individual. "The workman", as that eminent Trades-Unionist, Mr. George Howell, puts it, "is no longer forced to accept any terms offered through the pressure of hunger. He can wait. He has helped to institute a fund for the purpose of enabling him to wait;" and the power of being able to wait is one of the most necessary to all who have an object to gain.

76. Strikes. Thus, then, a combination of labour may help the employé to get better terms when bargaining with an employer for an engagement to work. It may also help in getting for him higher remuneration when he is

already in work, or in retaining the same rate of remuneration when circumstances would otherwise cause the rate of pay to fall. The Trades Unions, in fact, tend to keep up wages for those already in employment. This is occasionally done by means of what is known as a "strike", though this is a most unfortunate and misleading term for what actually takes place. A "strike", so far from meaning any positive action, as the name would seem at first to imply, simply denotes a cessation from work, and an adoption of a policy of inactivity—an inactivity which may either be masterly or the reverse. It is intended, however, by the adoption of this policy, to point out to employers, in a practical manner, the necessity of labour to the undertakings of capital, and thereby, inferentially to prove the desirability of giving labour what the labourer regards as sufficient remuneration for his services. But cessations of labour, or strikes, generally do almost as much harm to the strikers, even when they are successful, as to the employer, and when they are unsuccessful do infinitely more damage to the striker than to his opponent. In any case they are a rough and harmful way of settling disputes, and a resort to this method is always, even in the interests of labour, to be deplored, especially as the majority of strikes are invariably unsuccessful. The greatest modern strike that has been successful was the now famous Dockers' Strike in the summer of 1889; and since then combinations of labour have been almost without exception defeated. But the question remains: rough and disastrous as strikes necessarily are as a means of making the demands of labour effectively known, what other methods are there upon which the men can rely? Arbitration, though ideally desirable, is often practically useless, for it is impossible always to get both parties to consent to it, and both masters as well as

men are occasionally to blame for refusing to have recourse to this method.

77. Other Advantages of Trades Unions: But it must not be imagined that Trades Unions exist solely for the object of fighting employers and promoting strikes, or even of raising wages. They give to their members various benefits, generally termed "Provident Benefits", in time of need. Among these benefits are included (1) funeral allowances, *i.e.* various amounts payable at death to the wife and family of a member of a Union; (2) sick benefit, another allowance made when a member is too ill to work; (3) superannuation allowance, which explains itself; (4) accident benefit, granted when a man has met with some severe accident during his work; (5) out of work allowance, for men who cannot get employment for a time, which often includes payment of railway fares to some place where a man is likely to get work. There are also other grants occasionally made in times of sickness, loss, or distress, and thus a working man, by joining a Trades Union, gains many substantial advantages beside that of raising his actual wages. Professor Marshall has well summed up the policy and action of these institutions: "The policy of the Union varies in detail with time and circumstances; but its chief aims are generally the increase of wages, the reduction of the hours of labour, the securing of healthy, safe, and pleasant conditions of work, and the defending of individual workers from arbitrary and unjust treatment by other employers. Most of their regulations are framed either for the direct attainment of some of these aims, or for securing conditions of hiring which will enable the employed to deal as a body with their employers—conditions which they regard as generally needed for the attainment of all their aims."

78. Hours of Labour. When all is said, however, the two most important points in the economic action of Trades Unions are the raising of wages and the reduction of the hours of labour. Both amount, in reality, to the same thing, for it is obvious that if a man expects only nine hours' pay for nine hours' work he is not seeking higher wages, while if he wants nine hours' pay for eight hours' work he is seeking more wages. And in practice also, it is not easy to treat higher wages and shorter hours separately when inquiring how far each may be possible. For everything depends upon the total output of the workers of the country, using the word worker to include every person—artisan, employer, merchant or capitalist—who in any way contributes to the sum total of industry by brains or hands. It is from this total output, or "joint product of labour and capital," that all wages and profits finally come; and if this product or total is diminished, either wages or profits, or both, must suffer accordingly. It is, of course, possible to increase wages at the expense of profits, or profits at the expense of wages; and both are occasionally done; but this can only be done to a certain and limited extent, and, in the end, if any important decrease of the joint product of labour and capital takes place, both wages and profits must decrease also. When therefore any section of the working classes, whether hewers in a mine, or clerks in a merchants' office, demand either a higher rate of pay or (what we have said is the same thing) shorter hours of work, the first question is—can the community afford it? Sometimes, as has been shown elsewhere *, the shortening of hours is quickly compensated by an increased efficiency on the part of the workman, so that the total output is not affected. Sometimes, on

See *A Shorter Working Day* by Messrs Hadfield and Gibbins.

the other hand, it may be possible that the shortening of hours has to take place at the expense of some other portion of the community. It may be, however, that the other portion of the community may be perfectly well able to afford this expense, and ought, as a matter of right, to bear it; but of course the proof of this would necessitate a profounder dealing with statistics than there is here any space for. All that we can say here is that recent investigations have tended to show that a reduction of the hours of labour is, as a matter of economic theory, perfectly possible in some cases without detriment to the total output of industry; but that it is only possible in so far as either (1) this total output is not reduced, or (2) the distribution of the total output may be respectively varied among the various industrial classes. In any case, it is the greatest fallacy to imagine that by merely shortening hours a sufficiency of work will be found for the unemployed. But for these and other questions we must refer the reader to more special treatises.

For further reading see: G. Howell, M.P., *Trades Unionism New and Old* (Methuen, 2/6), Hadfield and Gibbins, *A Shorter Working Day* (Methuen, 2/6) and Professor Marshall, *Economics of Industry*, pp. 364—373, and 374—411 (Macmillan, 4/6).

CHAPTER XII

THE DISTRIBUTION OF NATIONAL WEALTH

79. The Production of Wealth. In the previous chapters we have discussed the various operations of commerce, and how they contribute to the production of the total wealth of the country. We have now to discuss how that sum total of wealth is divided among the various classes and persons who have been engaged in producing it. There are three things which join in producing wealth: namely, labour, capital, and the natural resources of the earth. These are abstract names: the concrete things and persons with which we have to deal are the labourer or artisan, the merchant, the shopkeeper, the capitalist or financier, and the raw materials provided by nature, such as coal and iron, and the natural fertility of the soil (often increased by applications of labour and capital). We should also include under the third heading such natural advantages as good harbours, navigable rivers which afford a ready means of transporting commodities from one place to another, or again, physical features, such as a fairly level and solid surface which permits the making of roads and railways without undue expense. Such physical advantages as these (which we possess in abundance in Great Britain), have a very important effect in aiding the production of

wealth, for transport and communication make up a very considerable item in the cost of production. It is truly said that a forwarding agent or carrier is just as much a producer in his way as a farmer or collier, because he brings commodities within reach of the consumer. So, too, a merchant or a shopkeeper is a producer in the same sense of the word, for the process of production goes on from the time the raw material is raised from the soil until the finished product is actually placed in the hands of the consumer, and each person taking part in that process is a producer. The collier who hews out coal in the bowels of the earth only performs part of what is often a necessarily long and intricate process, and he might just as well not hew out coal at all in Durham if it could not be placed, when required, in the coal-cellar of any consumer in London. The coal-hewer only begins the process; it is continued by the railway company who transports the coal, by the merchant who receives it wholesale and distributes it retail to his customers, by the carter who conveys it to the house of the consumer, and lastly by the man who earns a final shilling by carrying it from the cart to the cellar.

80. The National Dividend. But we need not enlarge further upon the processes of production. We see that all classes of workers, labourers and capitalists alike, *so long as they work*, are contributing to the sum total of the wealth of the country. This sum total has been well termed by Professor Marshall "the national dividend". He states it briefly thus: "The labour and capital of the country, acting on its natural resources, raise annually a joint product consisting of a certain net aggregate of commodities, material and immaterial, including *services* of all

kinds. This is the true net annual income or revenue of a country, or as we may say, the national dividend". This must necessarily be the sole source of payment for all the various agencies of production throughout the country, just as it is the total result of the working of all these agencies. It is divided up, roughly speaking, into (1) earnings of labour, (2) interest on capital, and (3) rent whether of land or of certain special advantages belonging to individuals, sometimes termed the rent of ability. But these are only very broad and rough general divisions, and there are many subdivisions which we should need to enumerate in order to make the whole complete. Thus, for instance, a certain proportion of all three divisions is set aside for the purpose of maintaining a stable and equitable Government, under which industrial forces may have opportunity to do their work peacefully. Another portion is set aside for the maintenance of aids to industry in the shape of lighthouses and harbours, and for protection from possible foreign interference in the shape of an army and navy. But, disregarding these, we may say, roughly speaking, that the national dividend is applied broadly to the remuneration of the national producers.

81. The Distribution of Wealth. We are, however, only able to speak broadly, and everyone knows that in the distribution of the national dividend there are many obvious inequalities and irregularities. It is not so simple as the distribution of the dividend of a company to its shareholders, where each shareholder gets a certain share of the total income in proportion as he has contributed to the capital of the concern. And yet the principle is the same, for all workers are shareholders in the great company which is the nation, and to each a certain return is

due. The misfortune is that, owing to the exceedingly complicated nature of our modern industrial and commercial system, great difficulties occur in the automatic distribution of the national dividend. In a simple state of society where, for example, an agriculturist is working on his own plot of ground and produces, besides, most of the things which he wishes to use, there is no difficulty in seeing what return for his labour he is likely, if ordinarily successful, to get. His reward is directly measured by the product of his labour. But in modern industry, especially when manufacturing processes are so marvellously subdivided, it becomes much harder to declare the exact return which is duly proportionate to each man's labour. It is very hard to say off-hand what is the exact proportion of the total product which is due to the lace girl who is employed entirely in placing finished lace in ornamental boxes; or what is due to a junior clerk who copies and docketts his principal's letters; and the few shillings per week which the lace-girl or the junior clerk earns are probably only a rough approximation, which in some cases may be too much and in others too little, to the actual value of their services.

82. Rules of Distribution. Nevertheless, certain broad rules may be noticed. (1) We may say with some approach to accuracy that, on the whole, and with some important exceptions, the reward of labour depends upon its productiveness in the modern and complicated state, just as it did in a primitive and simple state of industry. Productive labour meets with a reward and unproductive labour does not, and this statement is almost self-evident. But it is not so evident that the reward of labour is always in due proportion to the productiveness of labour, and indeed

in our modern state rewards are often proportioned in a curious and somewhat unfair way. This, however, is owing to causes which though economic in their effects are not always economic in their origin, and they cannot be discussed here. We may also state (2) that, on the whole, and again with some important exceptions, labour is so directed or so directs itself that it tends to be occupied in the right channels, and to produce those commodities which are most required or that work or service that is most in demand, and receives its reward accordingly. It is clear, for instance, that no rational man expends labour in carving blocks of coal into ornamental shapes before they are burnt, since all that is required of his labour in this direction is that he should produce blocks of coal suitable for combustion. But it is also clear that labour is in many cases misapplied, as, for example, when men expend toil and trouble and money in fitting themselves for a profession that is already overcrowded, instead of devoting themselves to farming and cattle rearing in some fertile colony. Such cases of misapplication constantly occur because, owing to the complexity of modern civilisation, men do not always see how to apply their labour so that it may meet with its due reward; and also because, even when they do see it, neither labour nor capital is sufficiently mobile to be transferred with absolute readiness from one branch of industry to another. Capital does not flow like water, though some theoretical economists talk as if it did; and labour flows still less readily.

83. Competition. If, then, we ask what determines the mode of application of a man's labour and the reward that accrues to it, we can only say that it is a rough and

ready system of competition, a state of competition being defined as "a state in which each man is theoretically free to employ his labour or capital in any way he sees fit, it being always supposed that he applies either in the hope of getting a reward". This is not by any means a perfect system, but it is the one which prevails in civilised countries at present, though it does not work without considerable friction. Moreover, many, if not most, people are only theoretically free to choose their employment, but practically are forced into some unremunerative labour by custom, ignorance, or the folly of relatives. And, again, the connexion between labour and its reward often becomes under this system so obscure as to dishearten the worker and lessen the effectiveness of his work.

84. Our National Income and Its Division. Such being the system, however, under which we live at present, it is interesting to note how our national wealth is divided. The national income has been calculated to be not much under £1300 million per annum; of this nearly one sixth *i.e.* £200 million is given to Rent, either for houses or buildings; about £275 million to Interest on capital and other means of production, besides £22 million more interest upon National and Municipal debts, while the remaining £800 million is apportioned in the amounts of £350 million to professional men, merchants, and others who do not belong to the labouring classes, and £450 million to the manual labour class. It will thus be seen that Rent and Interest swallow up a large portion of our national income, leaving about two thirds for the remuneration of all kinds of Labour, mental and manual, whether of producers or distributors. It is thought by

some that the share thus remaining for labour is too small, and in considering the remuneration of labour and services it should always be remembered that, when there are several claimants for shares in the national dividend and no absolutely exact division is, from the nature of the case, possible, those claimants will get the largest share who are most active in pushing their claims and most powerful in enforcing them. Hence, at any given time Rent may obtain more than its fair share, to the detriment of Labour, or Labour may obtain more, to the detriment of Interest on Capital. As a rule, however, the interests of Rent and Capital are sufficiently strong to protect themselves from any aggression, and Labour has occasionally to suffer. This, under the present condition of affairs, is unavoidable, though its continuance rests chiefly in the hands of the working classes themselves, whether they work with brain or hand.

For further reading see Cannan's *Political Economy*; Marshall's *Economics of Industry*, pp. 257 sqq.; and Mulhall's *Dictionary of Statistics*.

FINIS.

10

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	PAGE
LATIN	2
GREEK	18
FRENCH	24
TEXT-BOOKS OF TECHNOLOGY	28
METHUEN'S COMMERCIAL SERIES	29
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CLASSICAL TRANSLATIONS	30
SCIENCE	31
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[Specimen Page.]

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The girl stands. The boys love the mother. The dog runs. The master teaches the boy. The girl sings. The queen praises the boy. *Nauta stat. Puer canit. Puer Juliam amat. Julia currit.*

- II. Point out the Subject, Object, and Predicate in each of the following, writing the proper letters over each word—

The queen loves the boy. The boy fears the dog. The slave loves the girl. *Puella servum timet. Servus canem terret. Homo reginam amat.*

- III. Translate into English—

1. *Servus stat.* 2. *Servus canem timet.* 3. *Homo currit.* 4. *Canis hominem terret.* 5. *Puella canem amat.* 6. *Aqua currit.* 7. *Puer puellam docet.* 8. *Magister servum docet.* 9. *Servus nautam videt.* 10. *Canis puellam terret.* 11. *Homo servum videt.* 12. *Puella canit.* 13. *Pater matrem amat.* 14. *Mater filium docet.* 15. *Nauta pugnat.*

- IV. Translate into Latin—

1. The slave runs. 2. The queen sees the slave. 3. The girl sees the sailor. 4. The man stands. 5. The water runs. 6. The boy sings. 7. The girl sees the water. 8. Caesar rules the land.

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est. Helvetii nostrorum impetus diutius sustinere non poterant. alteri in montem se receperunt: alteri ad impedimenta et carros suos se contulerunt. ab hora septima ad vesperum pugnatum est, nec hoc toto proelio aversum hostem videre quisquam potuit.

297. Dum vires annique sinunt, tolerate labores:
jam veniet tacito curva senecta pede.

298. Darius in fuga, eum aquam turbidam et cadaveribus inquinatam bibisset, negavit unquam se bibisse jucundius. nunquam videlicet sitiens biberat.

299. Quid magis est durum saxo, quid mollius unda?
dura tamen molli saxa cavantur aqua.

300. Catilina a Cicerone consule urbe expulsus est, et socii ejus deprehensi in carcere strangulati sunt.

301. Tempori cedere, id est necessitati parere, semper sapientis est habitum.

302. Fame coacta vulpes alta in vinea
uvam appetebat, summis saliens viribus:
quam tangere ut non potuit, discedens ait:
nondum matura est, nolo acerbam sumere.

303. Seneca haec ad amicum scripsit: Ante senectutem curavi, ut bene viverem; in senectute curo, ut bene e vita decedam.

304. Si Alexander, qui tot gentes armis devicit, etiam animi sui cupiditates vicisset, diutius haud dubie et majore cum gloria vixisset.

305. Praeceptores erudiunt pueros, servi dominis serviunt, cives legibus obediunt.

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321. Titus amor ac deliciae generis humani appellatus est. admonentibus domesticis, quia plura polliceretur, quam praestare posset, non oportere, ait, quemquam a sermone principis tristem discedere. atque etiam recordatus quondam super coenam, quod nihil cuiquam toto die praestitisset, memorabilem illam meritoque laudatam vocem edidit: *Amici, diem perdidit!*

THE LIMITS OF PLAY.

322. Lusus pueris proderunt; quia pueri post lusus plus virium et acriorem animum afferunt ad discendum. modus tamen sit remissionibus; ne aut negatae odium studiorum faciant, aut nimiae otii consuetudinem afferant.

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324. Eleus Hippias, cum Olympiam venisset, gloriatus est, cuncta paene audiente Graecia, nihil esse ulla in arte rerum omnium, quod ipse nesciret; nec solum has artes, quibus liberales doctrinae atque ingenuae continerentur, geometriam, musicam, litterarum cognitionem et poëtarum, atque illa, quae de naturis rerum, quae de hominum moribus, quae de rebus publicis dicerentur: sed anulum, quem haberet, pallium, quo amictus, soccos, quibus indutus esset, se sua manu confecisse.

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Populus Atheniensis Phocionem patriā pepulit. NEP.
The Athenian people drove Phocion from his country.

The Ablative of Origin is used with Verbs, chiefly Participles, implying descent or origin :

Tantalo prognatus, Pelope natus.
Descended from Tantalus, son of Pelops.

18.

1. The death of Hannibal freed the Romans from fear.
2. No one is free from blame.
3. We are in need of brave soldiers.
4. They stripped the town of defenders.
5. The Helvetii did not abstain from wrong.
6. Caesar calls the soldiers away from the battle.
7. The praetors kept the crowd from the forum.
8. Tarquin, the last king of the Romans, was expelled from the city.
9. The murderers abandoned their attempt.
10. Hippocrates was descended from a Syracusan family.
11. Caesar cut off the enemy from their supplies.
12. He was descended from Hercules.
13. I will relieve you of this load.
14. Love of virtue ought to restrain us from wrong.
15. We hear that he is descended from an ancient family.

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8. Leave nothing undone¹ to avenge your brother.

9. It was² all through you that I did not defeat the enemy.

10. We shall not prevent them doing that

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Quæsit cur hæc fecissem.

He inquired why I had done this.

Rogaverunt quando futurum esset ut pons conficeretur.

They asked when the bridge would be finished.

NOTE 1.—The principal verb need not be of an interrogative character :

Moneo quid faciendum sit.

I warn you what you ought to do.

NOTE 2.—The conjunctions *if, whether*, must never be translated by *si, sive*, but by *-ne, num, nonne* :

Dic mihi num valeat.

Tell me if he is well.

NOTE 3.—For a future conjunctive passive the periphrastic forms *futurum sit, fuerit, esset* (followed by *ut* and conjunctive) must be used.

NOTE 4.—*Nescio quis, nescio quomodo* (*some one, somehow*) are treated as simple expressions and do not take the conjunctive :

Nescio quis venit.

Some one came.

¹ Prætermitto.

² Sto.

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46 *Notanda Quaedam.*

4. Caius swore that he would never do anything that was unworthy of a Roman citizen.
5. The river was so rapid that the army could not cross without great danger.
6. The boy asked me whether the old man had lived all his life at Gades.
7. He advised us to be mindful of the shortness of life.
8. He has been made heir to the whole estate.
9. I hope the poor citizens will be spared.
10. You are weak compared to him.

LXVIII.

1. The Senate was nearly all on the side of Hannibal.
2. The dictator swore that if no one followed he would die alone for his country.
3. He ordered the centurion not to kill the prisoners.
4. Who is there that does not love the old generals of Rome?
5. He gave the soldiers two pounds of corn apiece.

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ēquitātus,	-ūs,	<i>cavalry.</i>
peditātus,	-ūs,	<i>infantry.</i>
mānus,	-ūs,	<i>band.</i>
tripertito,		<i>in three divisions.</i>
quam maximus,	-i -ae -i,	<i>as great as possible.</i>
habeo,	(2),	<i>hold (levy).</i>
convēnio,	-vēni -ventum,	<i>assemble.</i>
conscribo,	-psi -ptum,	<i>enrol.</i>
compāro,	(1),	<i>raise.</i>
cōgo,	coēgi, coactum,	<i>collect, compel.</i>

39. [xxxvi.] *War (Service).*

stipendium,	-i,	<i>pay, service, tribute.</i>
missio,	-ōnis,	<i>discharge.</i>
millītia,	-ae,	<i>warfare, military service.</i>
sācrāmentum,	-i,	<i>oath.</i>
tiro,	-ōnis,	<i>recruit.</i>
vētērānus,	-i,	<i>veteran.</i>
immūnitas,	-ātis,	<i>exemption.</i>
ēmēriti,	-ōrum,	<i>soldiers who have served their time.</i>
vexillārii,	-ōrum,	<i>reserve forces.</i>
in verba jūro,	(1),	<i>swear (according to a formulary).</i>
mēreor,	-ītus,	<i>serve, deserve.</i>
milīto,	(1),	<i>serve (as a soldier).</i>

40. [xxxvii.] *War (Camp).*

tābernāculum,	-i,	<i>tent.</i>
praetōrium,	-i,	<i>general's tent.</i>
porta dēcūmāna,	-ae -ae,	<i>main gate of camp.</i>
castra hiberna,	-ōrum,	<i>winter camp.</i>
castra aestiva,	-ōrum,	<i>summer camp.</i>
castra stātiva,	-ōrum,	<i>stationary camp.</i>
āpertus,	-i -ae -i,	<i>open, unprotected.</i>

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4. Explain the forms—quī, sultis, viden, fervit.

5. Translate and comment on—(1) Opus est *properato*. (2) *Parcite procedere*. (3) Non recusavit *quominus* poenam *subiret*. (4) Nullum intermisi diem *quin scriberem*.

6. Turn into *oratio recta*—(1) Dixit eum si hoc diceret, errare. (2) Dixit eum si hoc diceret, erraturum esse. (3) Dixit eum si hoc dixisset, erraturum fuisse.

7. Explain the figures in—(1) Pateris libamus et auro. (2) Insaniens sapientia. (3) Superbos Tarquini fascēs. (4) Scuta latentia condunt. (5) Dulce loquens Lalage.

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	V.	φίλιε	φιλιά	φίλιον
	A.	φίλιον	φιλιάν	φίλιον
	G.	φιλίου	φιλιάς	φιλίου
	D.	φιλίῳ	φιλίᾳ	φιλίῳ
Dual	N. V. A.	φιλίῳ	φιλίῳ	φιλίῳ
	G. D.	φιλίοιν	φιλίοιν	φιλίοιν
Plural	N. V.	φίλιοι	φίλιαι	φίλια
	A.	φίλιους	φιλίας	φίλια
	G.	φιλίων	φιλίων	φιλίων
	D.	φιλίοις	φιλίαις	φιλίοις

Decline also : δίκαιος, *just* ; ὅσιος, *holy*.

Contracted Adjectives

Stem		Masc. χρῦσσο	Fem. χρῦσσεα	Neut. χρῦσσο
Singular	N.	χρῦσσοῦς	χρῦσση	χρῦσσοῦν
	V.	χρῦσσοῦς	χρῦσση	χρῦσσοῦν
	A.	χρῦσσοῦν	χρῦσσην	χρῦσσοῦν
	G.	χρῦσσοῦ	χρῦσσης	χρῦσσοῦ
	D.	χρῦσσω	χρῦσση	χρῦσσω
Dual	N. V. A.	χρῦσώ	χρῦσώ	χρῦσώ
	G. D.	χρῦσσοῖν	χρῦσσοῖν	χρῦσσοῖν
Plural	N. V.	χρῦσσοί	χρῦσσαί	χρῦσσά
	A.	χρῦσσοῦς	χρῦσσᾶς	χρῦσσά
	G.	χρῦσσῶν	χρῦσσῶν	χρῦσσῶν
	D.	χρῦσσοῖς	χρῦσσαῖς	χρῦσσοῖς

Decline also : ἀπλοῦς, *simple* ; ἀργυροῦς, *of silver*.

Note 1.—Adjectives in -ous pure (like ἀργυροῦς) keep the a all through the Feminine Singular.

Note 2.—The methods of contraction should be carefully noted (cf. p. 5).

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53 ἀγαθῶν] [R. 113.]

54 ἀντελάβετο] lit. 'took by the hand,' i.e. 'helped.' [R. 112.]

55 καθὼς...ἡμῶν] These words form a parenthesis; 'that He might remember mercy (*even as He spake unto our fathers*) toward Abraham and his seed for ever.'

αἰῶνα] Cf. § 121. 46.

48. 1 ἐγένετο...ἐξηλθεν] ἐγένετο is a translation of a Hebrew formula of transition; the verb which follows is sometimes connected with καί, sometimes, as here, has no connecting particle.

ἐν ταῖς ἡμέραις ἐκείναις] i.e. at the time of or shortly after the Annunciation.

ἀπογράφεσθαι] Either passive, 'should be enrolled,' or middle, 'should enrol themselves.' The ἀπογραφὴ was a registration, generally for purposes of taxation. Every Roman subject was liable to a capitation tax.

πάσαν τὴν οἰκουμένην] sc. γῆν, 'all the habitable world,' i.e. the Roman Empire.

2 αὕτη...Κυρηνίου] 'this was the first enrolment made,' lit. 'this enrolment took place as the first.' Quirinius was Governor of Syria in A.D. 6, ten years after this time. St. Luke has therefore been charged with a grave error in assigning the enrolment to Quirinius. It is probable however that Quirinius was twice governor of Syria, once in B.C. 4, when he began the census, and once in A.D. 6, when he carried it to completion.

τῆς Συρίας] [R. 95.]

3 ἀπογράφεσθαι] Infinitive of purpose.

4 Βηθλέεμ] 'the house of bread.' Joseph might have got himself registered at Nazareth, but the Jewish practice seems to have been to go to one's native town. The birth of Christ

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 τρυζόντων...τῶν οἰκιῶν ὑμῶν ἐπιπριαμένων. (2) οὐκ
 ἀνέξομαι ζῶσα. (3) οὐ σοι μὴ μεθέψομαι ποτε.
 (4) ἥδεις ἄξιός ἄν ᾧ θάνατον. (5) γραφὴν ἐδίωκε.
 (6) ἀμείβειν χρύσεια χαλκείων. (7) πυραμὶς μείζων
 πατρός. (8) ὁ μάντις τοὺς λόγους ψευδεῖς λέγει.

6. What notion generally precedes the use of *πρίν*?

Give rules for the construction of final sentences in Greek, with examples.

7. Give the Greek of—mast; sail; anchor; stern; the school of Plato; some people; with impunity; as far as was in their power; may you be happy; skilful in speaking; it being lawful; more honest than rich; fairer than any before; too heavy for a boy; we must obey him; he did it unseen; don't talk.

8. Is there any connection or similarity between the case-endings of Latin and Greek?

9. Translate—

1. He sent for his wife and her son.

2. Do not go away till I come.

3. Surely you do not say so?

LXVIII.

1. Give the Genitive and Gender of—γάλα—ἐλπίς—ἄνθος—πίναξ—κράτος—σάρξ—φέγγος—χρῶς—γενειάς—χελιδών.

2. Give the chief tenses of—αἶρω—ἐπιτίθημι—ἐλαύνω—σβέννυμι—ἐμπίπτω—δάκνω.

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ils se portent mal	ils se trompent	levez-vous
je m'appelle Louis	ils se sont levés	couchons-nous
vous vous portez bien	nous nous étions reposés	je me suis trompé

II. Give French of—

they are very well	you deceive yourself	we shall rest
they would get up	go to bed	we are not well
we will not go to bed	they call themselves French	they have deceived themselves

III.

1. A quelle heure vous coucherez-vous ce soir? A onze heures.
2. Il s'est trompé, je pense.
3. A quelle heure vous êtes-vous levé ce matin? A sept heures.
4. Vous ne vous reposez jamais.
5. Ce général s'était trompé.
6. Comment vous portez-vous, mon cher? Très bien, merci.
7. Les ennemis se sont battus.
8. Nous nous levons souvent à six heures.
9. Ne vous trompez pas : vous ne réussirez jamais.
10. Comment votre ami se porte-t-il? Très bien.
11. Comment vous appelez-vous? Je m'appelle Henri.
12. Nous nous portons très mal.

IV.

1. How are you to-day? I am very bad.
2. At what hour did you go to bed yesterday? At six.
3. You deceive yourself, my friend.
4. Do not get up at 10.0 this morning.
5. Dogs and cats always fight.
6. They had rested many hours.
7. Get up at five and go to bed at ten. Thank you.
8. What is your name? My name is Charles.
9. How is your brother? Very well, thank you.
10. We shall all go to bed at nine to-night.
11. These men had deceived themselves.
12. At what hour will they go to bed? At 10.0.

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LXXIII.

1. Compare—bon, mauvais, petit ; and give the adverbs derived from these words. Translate—my best book is here ; I am much better.

2. Distinguish—il me rit au nez, il rit de mon nez ; excellent, excellent ; différent, différent ; le cours, la cour ; le tour, la tour ; vers, vert, le ver ; faire grâce, faire une grâce ; un écrivain malheureux, un malheureux écrivain.

3. What is the place of the adverb in a French sentence ? Translate—I have slept well.

4. Give the masculine of—actrice, hôtesse, institutrice, bergère, jumelle, vache, de laquelle, joyeuse, grasses, sotté, citoyenne ; and the plural of—joujou, nez, chacal, sous-officier.

5. What tenses are formed from the present participle ? Give examples, and any exceptions you know.

6. Translate—

1. I have passed you the salt.

2. Have you left the door open ?

3. I have given your father the book I promised him.

4. Who is there ? It is he.

5. I will give it him if you like.

7. Write the infinitive of—mis, sert, envoient, dû, fait, vu, ouvert.

8. Derive—agneau, aigu, ajouter, âme, arriver.

9. Why should the first person plural of *gémir* end in *-issons*, and that of *sentir* in *-ons* ? What was the old form of *il aime* ?

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